

School District of the City of Pontiac

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2008

BOARD OF EDUCATION

Mr. Damon O. Dorkins
President

Mr. Gill Garrett
Vice President

Ms. Alma Bradley-Pettress
Secretary

Ms. Karen Cain
Treasurer

Mr. Robert Bass
Parliamentarian

Ms. April Hernandez Trustee

Mr. Christopher Northcross
Trustee

Dr. Linda Paramore
Interim Superintendent of
Schools

Prepared by
Mr. David Massoglia
Senior Finance Manager

Dr. Felix Chow
Interim Deputy
Superintendent of Business
Services

Notice of Nondiscrimination

The School District of the City of Pontiac does not discriminate on the basis of race, color, national origin, sex, age, religion, height, weight, marital status, or disability in its programs and activities. The following office has been designated to handle inquiries regarding nondiscrimination policies:

Assistant Superintendent of Human Resources
47200 Woodward Avenue
Pontiac, MI 48340
248-451-6860

School District of the City of Pontiac

Contents

Introductory Section

| | |
|--------------------------------------|------|
| Letter of Transmittal | i-ix |
| Organizational Chart | x |
| ASBO Certificate of Excellence Award | xi |

Financial Section

| | |
|--------------------------------------|------|
| Auditor's Report Letter | 1-2 |
| Management's Discussion and Analysis | 3-12 |

Basic Financial Statements

Government-wide Financial Statements:

| | |
|-----------------------------------|----|
| Statement of Net Assets (Deficit) | 13 |
| Statement of Activities | 14 |

Fund Financial Statements:

Governmental Funds:

| | |
|---|----|
| Balance Sheet | 15 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) | 16 |
| Statement of Revenue, Expenditures, and Changes in Fund Balances | 17 |
| Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 18 |

| | |
|--|----|
| Fiduciary Fund - Statement of Fiduciary Assets and Liabilities | 19 |
|--|----|

| | |
|-------------------------------|-------|
| Notes to Financial Statements | 20-35 |
|-------------------------------|-------|

Required Supplementary Information

| | |
|--|----|
| Budgetary Comparison Schedule - General Fund | 36 |
|--|----|

School District of the City of Pontiac

Contents (Continued)

Other Supplementary Information

| | |
|--|-------|
| Nonmajor Governmental Funds: | |
| Combining Balance Sheet | 37-38 |
| Combining Statement of Revenue, Expenditures, and Changes in Fund Balances | 39-40 |
| Budgetary Comparison Schedule - Nonmajor Funds: | |
| Special Revenue Fund - Regional Center Special Education Programs | 41 |
| Special Revenue Fund - Food Services | 42 |
| Special Revenue Fund - Athletics | 43 |
| Debt Service Funds - Combined | 44 |
| Schedule of Bonded Indebtedness | 45 |
| General Fund: | |
| Combining Balance Sheet | 46 |
| Combining Statement of Revenue, Expenditures, and Changes in Fund Balance | 47 |

Statistical and Other Information Section for the School District of the City of Pontiac (Unaudited)

| | |
|--|-------|
| Net Assets - Governmental Activities - Last Six Fiscal Years | 48 |
| Changes in Governmental Net Assets - Last Six Fiscal Years | 49 |
| Fund Balances - Governmental Funds - Last Ten Fiscal Years | 50-51 |

School District of the City of Pontiac

Contents (Continued)

Statistical and Other Information Section for the School District of the City of Pontiac (Unaudited) (Continued)

| | |
|--|-------|
| Government Funds - Changes in Fund Balances - Last Ten Fiscal Years | 52-53 |
| Taxable Value of Taxable Property - Last Ten Years | 54-55 |
| Direct and Overlapping Property Tax Rates - Last Ten Fiscal Years | 56-57 |
| Principal Property Taxpayers - Current Year and Nine Years Prior | 58 |
| Property Tax Levies and Collections - Last Ten Fiscal Years | 59 |
| Ratios of General Bonded Debt Outstanding - Last Ten Fiscal Years | 60-61 |
| Ratios of Outstanding Debt - Last Ten Fiscal Years | 62-63 |
| Direct and Overlapping Governmental Activities Debt | 64 |
| Legal Debt Margin - Last Ten Fiscal Years | 65-66 |
| Demographic and Economic Statistics - Last Ten Fiscal Years | 67 |
| Principal Employers - Prior Year and Nine Years Prior | 68 |
| Full-time Equivalent School District Employees - Last Ten Fiscal Years | 69 |
| Operating Indicators - Last Ten Fiscal Years | 70 |
| Capital Asset Information - Last Ten Fiscal Years | 71-72 |

Federal Awards Supplemental Information

Issued Under
Separate
Cover



School District of the City of Pontiac

47200 Woodward Avenue · Pontiac, MI 48342.2243

phone: 248.451.6819 · fax: 248.451.6885

Felix H. Chow, Ed.D., Interim Deputy Superintendent

Office of Business and Auxiliary Services

October 15, 2008

To the Citizens and Employees of the
School District of the City of Pontiac
and the President and Members of the
Board of Education

Introduction

The Comprehensive Annual Financial Report of the School District of the City of Pontiac for the year ended June 30, 2008 is submitted herewith.

The responsibility for the accuracy, completeness, and clarity of this report rests with the Department of Finance and Business Services. This report has been prepared following generally accepted accounting practices and principles. We believe the data presented is accurate in all material respects and is also presented in a manner that fairly reflects the financial position and results of the year's operations of the School District of the City of Pontiac. All disclosures necessary to enable the reader to gain a full understanding of the School District's financial activity have been included in this comprehensive report.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical and other information. The introductory section includes this transmittal letter, the School District's organizational chart, and prior year recognition for excellence in financial reporting. The financial section includes the basic financial statements, management's discussion and analysis, and the required supplementary information, as well as the auditor's report, which covers the basic financial statements. The statistical and other information section includes selected financial and demographic information, generally presented on a multi-year basis. The financial statement presentation, including management's discussion and analysis, is in conformance with GASB Statement No. 34.

The School District is an independent governmental entity, established under Michigan law, serving the entire city of Pontiac, plus sections of the cities of Auburn Hills, Lake Angelus, Sylvan Lake, and the Townships of Waterford, Bloomfield, West Bloomfield, and Orion. The School District is governed by a seven-member, elected Board of Education and provides a general education program for students in kindergarten through grade twelve. Additional educational programs are incorporated into the general education structure. Among those offered are pre-kindergarten, special education, vocational education, gifted and talented, bilingual, compensatory education, plus adult and community education programs.

"Pontiac Schools, Look Up!"

The mission of the School District of the City of Pontiac, in partnership with students, parents, and community is to create a learning/teaching environment that ensures quality and equity for all to succeed in a rapidly changing world.

Economic Conditions and Outlook

The School District of the City of Pontiac covers an area of 42 square miles in the northeast section of Oakland County, Michigan. The City of Pontiac is the largest governmental unit of the district, covering an area of 20 square miles, which is nearly half of the total School District. Portions of seven other Oakland County cities and townships make up the remainder of the School District. Oakland County is the wealthiest county in Michigan.

The City of Pontiac, like the state of Michigan, is heavily dependent on the automotive industry. This is evidenced by the fact that General Motors Corporation (GM) facilities account for a significant percentage of the City's taxable valuation. During the past year, the City's tax base continued to both increase and diversify. Recent growth in the City has come from automotive, mixed business, and residential development. GM's presence in the City continues to grow, in spite of its corporate office having moved to the Renaissance Center in Detroit.

School districts are operating under Michigan School Finance Reform (Proposal A) since fiscal 1994-1995. Proposal A established fixed revenue per pupil, to be provided as state aid to each school district. Each district is required to vote a property tax levy of 18 mills on non-homestead property in order to receive the full amount of state aid. School districts now rely on the State of Michigan as the primary source of revenues, rather than local property values. However, growth in a school district's tax base continues to play a significant role in school finance because it remains the sole basis of debt service support for school bond obligations.

Under Proposal A, the total revenues of a school district are directly related to the level of student enrollment. Each district must carefully manage its enrollment patterns and projections. The School District's student enrollment declined over the past year. We continue to focus on improving our pupil accounting process to ensure that all students are counted correctly. These conditions have positioned the School District to compete effectively in the new environment of parent choice and charter schools brought about by the broader aspects of the Michigan school reform.

Major Initiatives

The School District completed the 2008 fiscal year with General Fund equity of \$4.7 million. Beginning in the summer of 1998, the School District implemented a 100 percent summer tax collection to compensate for the negative impact of its liquidity, brought about by delayed state aid payments. This action allows the full millage rate to be levied and collected during the summer, rather than the customary 50 percent split between summer and winter. The economic terms of collective bargaining agreements continue to be settled based on conservative assumptions about revenue growth. All bond programs have been substantially completed. The School District pursued and passed a vote to have a Headlee Override on non-homestead property taxes. The School District proposed and the voters approved a .5 millage increase so that the 18 mills could be levied and protected against any possible future rollback.

The School District initiated many steps toward equity and excellence of education for all students. A district school improvement plan was adopted around emphasizing reading and comprehending at grade level, alignment of all processes, staff training, and meeting the needs of all stakeholders. The School District sent to the voters a plan to issue bonds to improve School District facilities on two separate occasions, which were defeated. As a result, the School District is currently evaluating its options for needed facility improvements. Operating expenditures are expected to exceed the operating revenues in fiscal 2009. The Michigan standardized test results showed mixed results for most buildings, and the School District faces challenges to improve scores. The Board of Education continued to strengthen School District governance by maintaining measurable objectives to evaluate progress toward the achievement of School District goals.

Future Projects

The main focus for the coming year is the achievement of objectives tied to Board of Education goals established for 2008-2009. The major goals are summarized as follows: safe and orderly schools, student learning is the priority, accountability at all levels, respect for diversity, parents are partners, and community ownership of the District.

In preparation for schools of the 21st century, our technology infrastructure has been fully built using a fiber backbone. This has allowed all classrooms to be connected to the Internet and the options for teaching and learning will be expanded. Electricity was upgraded in all buildings and modern computer equipment was procured and made available to students and staff. Technology will continue to be integrated into the curriculum and a widespread technology literacy program will develop technological proficiency among staff. It is expected that the effect of these endeavors will position the School District to thrive amidst charter schools and parent choice, which present a competitive atmosphere to attract and maintain students.

Financial Information

The School District's system of internal accounting and budgetary controls was designed to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. We believe that these objectives have been achieved. The School District's annual financial reporting to the State of Michigan follows accounting requirements as stated in the State Accounting Manual.

Budgets are adopted for certain funds of the School District and are integrated into the accounting system to ensure proper monitoring of such budgets.

Each of the following fund types is covered in detail within the attached report:

- General Fund
- Special Revenue Fund
- Debt Service Fund
- Capital Projects Fund
- Agency Fund

Internal Accounting Controls

Internal accounting controls are designed to provide reasonable, but not absolute, assurance that:

- Access to assets is permitted only in accordance with management's authorization.
- Transactions are executed in accordance with management's general or specific authorization.
- Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria, such as finance-related legal and contractual compliance requirements applicable to such statements, and (2) to maintain accountability for assets.

The concept of reasonable assurance recognizes that:

- The cost of a control should not exceed the benefits likely to be derived; and
- The evaluation of costs and benefits requires estimates and judgments by management.

We believe that the School District's system of internal accounting control adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions. To monitor the system, the accounting staff conducts various departmental audits and operational reviews.

The School District's accounting records for governmental fund operations are maintained on the modified accrual basis as prescribed by the Michigan Department of Education *Bulletin 1022 Accounting Manual*. Revenues are recognized when available and measurable. Expenditures are recorded when services or goods are received and liabilities are incurred, except for inventory-type items and prepaid expenditures. Liabilities are recorded when incurred, if measurable, except for compensated absences, self-insurance, and principal and interest on general long-term debt, which are recognized when due. These accounting policies conform with generally accepted accounting principles.

Budgetary Controls

The objective of the School District's budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget as approved by the School District's Board of Education. Activities of the General Fund, Special Revenue Funds, and Debt Service Funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed appropriated amounts) is established by function within an individual fund. Budget amendments that increase total estimated revenues and/or expenditure appropriations, or that change a major revenue source or function appropriation budget amount, must be specifically approved by the Board of Education. The School District uses an encumbrance accounting system in maintaining budgetary control. Encumbered amounts (unfilled purchase orders) lapse at year end; however, encumbrances are generally reappropriated as part of the following year's budget.

The administrative responsibility for budgeted appropriations is at the organizational level within each function of operations. The accounting department closely reviews the expenditure requests submitted by the various organizational heads throughout the year to ensure proper spending compliance.

As demonstrated by the statements and schedules included in the financial section of this report, the School District continues to meet its responsibility for sound financial management.

General Government Functions

Revenues and other financing sources for all governmental fund types, which include the General, Special Revenue, Debt Service, and Capital Projects Funds, totaled \$107.8 million during 2007-2008, a decrease of 6.2 percent from the previous year. The amount of revenues and other financing sources and the increase or decrease from last year are shown in the following tabulation:

| Revenues and Other Financing Sources | Current Year Amount (in Thousands) | Percent of Total | Prior Year Amount (in Thousands) | Increase (Decrease) from 2006-2007 (in Thousands) | Percent Change from Prior Year |
|---|--|---------------------|--|---|---|
| Local sources | \$ 59,923 | 55.6 | \$ 60,757 | \$ (834) | (1.4) |
| State sources | 21,131 | 19.6 | 23,720 | (2,589) | (10.9) |
| Federal sources | 14,744 | 13.7 | 16,505 | (1,761) | (10.7) |
| Interdistrict sources | 10,077 | 9.3 | 10,090 | (13) | (0.1) |
| Operating transfers in | 1,953 | 1.8 | 3,884 | (1,931) | (49.7) |
| Total | <u>\$ 107,828</u> | <u>100.0</u> | <u>\$ 114,956</u> | <u>\$ (7,128)</u> | <u>(6.2)</u> |

Revenues from local sources decreased 1.4 percent this year. The decrease is primarily due to small increase in the taxable value of properties offset by a decrease in other non-property sources of local revenues.

State sources revenues decreased by 10.9 percent. This change is a result of a larger percentage of the foundation allowance being collected through local property taxes levied, therefore decreasing the amount due from the State through the foundation grant.

Federal sources revenues decreased by 10.7 percent. This decrease primarily reflects decreases in the amount of federal programs due to fewer qualified students.

Inter-district sources, which are funds received from the County Intermediate School District for the operations of Center Special Education programs and funds from other school districts for Adult Education programs, decreased by 0.1 percent this year. The decrease primarily reflects a slight reduction in the special education allocation from the County Intermediate School District from the previous year.

“Operating transfers in” (other financing sources) are for monies transferred from Food Service, Special Education, and Categorical Programs. Operating transfers decreased 49.7 percent primarily due to a reduction in transfers to the Food Service Fund.

Expenditures and other uses for general educational purposes (all governmental fund types) totaled \$114.6 million during 2008-2007, a decrease of 9.1 percent from the previous year. Expenditures and other uses by function and the increase or decrease from last year are shown in the following tabulation:

| Expenditures and Other Financing Uses | Current Year Amount (in Thousands) | Percent of Total | Prior Year Amount (in Thousands) | Increase (Decrease) from 2006-2007 (in Thousands) | Percent Change from Prior Year |
|--|--|---------------------|--|---|---|
| Instruction | \$ 54,485 | 47.7 | \$ 54,788 | \$ (303) | (0.6) |
| Support services | 42,849 | 37.4 | 42,747 | 102 | 0.2 |
| Community services | 284 | 0.2 | 266 | 18 | 6.8 |
| Food services | 3,379 | 2.9 | 3,466 | (87) | (2.5) |
| Athletics | 1,189 | 1.0 | 1,190 | (1) | (0.1) |
| Debt service | 8,234 | 7.2 | 7,314 | 920 | 12.6 |
| Capital outlay | 2,198 | 1.9 | 12,364 | (10,166) | (82.2) |
| Operating transfers out | <u>1,953</u> | <u>1.7</u> | <u>3,884</u> | <u>(1,931)</u> | <u>(49.7)</u> |
| Total | <u>\$ 114,571</u> | <u>100.0</u> | <u>\$ 126,019</u> | <u>\$ (11,448)</u> | <u>(9.1)</u> |

Instructional expenditures decreased only 0.6 percent primarily due to population reductions and related reductions in the number of teachers.

Support services increased 0.2 percent, which primarily reflect inflationary increases.

Food service expenditures decreased 2.5 percent, reflecting fewer students served.

Athletics expenditures decreased 0.1 percent reflecting similar services to the previous year.

Debt service payments increased 12.6 percent and were driven by annual debt service obligations.

Capital outlay expenditures decreased 82.3 percent primarily due to lower expenditures from the 2006 bond.

Operating transfers out decreased 49.7 percent primarily due to a reduction in transfers to the Food Service Fund.

The School District has a General Fund balance of \$4.7 million as of June 30, 2008. The dollar amount of the fund balance is equivalent to approximately 19 days of expenditures.

The School District has provided additional analysis of its financial condition and results of operations in the management's discussion and analysis in the financial section of the annual report.

Debt Administration

On June 27, 1991, the School District sold \$54,415,074 of General Obligation Bonds at an average interest cost of 7.11 percent. This bond sale included \$9,200,000 of deficit elimination bonds, \$5,000,000 for new textbooks, \$19,779,946 for school improvements and refunding bonds, \$4,600,000 for asbestos abatement, and \$15,835,128 for the 1985 Construction Bond Fund. The original debt issuance that was defeased has been fully paid off. On August 5, 1999, the School District sold \$19,070,000 of General Obligation Bonds at an average interest cost of 4.64 percent. On June 25, 2006, the School District sold \$18,395,000 of General Obligation Bonds at an average interest cost of 4.55 percent.

A total of \$7.0 million of borrowings for operating purposes were needed for the 2007-2008 school year.

The following tabulation shows all School District bonds outstanding as of June 30, 2008:

| Issue | Date of Issue | Original Issue Amount | Average Life (Years) | Effective Rate (Percent) | Bonds Outstanding |
|---------|---------------|--------------------------|-------------------------|--------------------------------|-----------------------------|
| 1991-C2 | 06/27/91 | \$ 19,779,946 | 13.34 | 7.29 | \$ 6,117,477 |
| 1991-D | 06/27/91 | 15,835,128 | 12.90 | 7.28 | 4,643,365 |
| 1999 | 08/05/99 | 19,070,000 | 2.67 | 4.64 | 2,850,000 |
| 2006 | 06/25/06 | 18,395,000 | 14.83 | 4.55 | 17,895,000 |
| Total | | | | | <u>\$ 31,505,842</u> |

The ratio of bonded debt outstanding to taxable value and the amount of bonded debt per capita at the end of the 2004, 2005, 2006, 2007, and 2008 fiscal years were as follows:

| Fiscal Year Ended June 30 | Bonded Debt Outstanding | Taxable Value | Percent of Debt to Taxable Value (50 Percent of Market) | Bonded Debt per Capita |
|------------------------------|----------------------------|---------------|---|------------------------------|
| 2004 | 22,905,314 | 3,385,415,275 | 0.68 | 345 |
| 2005 | 20,492,363 | 3,485,307,413 | 0.59 | 309 |
| 2006 | 36,535,274 | 3,641,214,665 | 1.00 | 551 |
| 2007 | 34,241,678 | 3,864,529,957 | 0.89 | 513 |
| 2008 | 31,505,842 | 4,022,244,231 | 0.78 | 475 |

Cash Management

The School District's cash management guidelines are established by board policy. It is the intent of the School District of the City of Pontiac to maximize its interest earnings on available cash balances. Interest-bearing checking accounts, cash management accounts, certificates of deposit in state or national banks, and commercial paper were utilized in accordance with board policy for investment of available funds.

Risk Management

The School District has maintained insurance coverage for comprehensive general liability, property damage, boiler and machinery, automobile and fleet coverage, comprehensive crime, and student accident. Individual bonding is maintained on selected employees in addition to a faithful performance blanket position bond covering all employees.

The School District participates in an insurance pool along with other major school districts in Michigan called the Middle Cities Risk Management Trust. As a result, the School District saves significant dollars in insurance premiums by participating in this pool.

Independent Audit

An annual audit of the School District of the City of Pontiac has been performed by Plante & Moran, PLLC, independent public accountants selected by the Board of Education. Their opinion is included as part of this report.

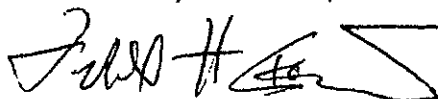
Certificate of Excellence

The School District has earned the Association of School Business Officials Certificate of Excellence for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007, and every year ending since and including June 30, 1987. This achievement is a great source of pride for both the school administration and the Board of Education, whose support is a necessity for maintaining such high standards for financial reporting.

While a Certificate of Excellence is valid for a period of one year only, the School District believes our current report continues to conform to program standards and we are submitting our report to ASBO to determine its eligibility for another certificate.

We thank everyone for their continued guidance and support throughout this past year and commend the personnel of the business office and the administrative staff for their efforts resulting in this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Felix Chow', with a stylized flourish at the end.

Dr. Felix Chow
Interim Deputy Superintendent of Business
Services

A handwritten signature in black ink, appearing to read 'David Massoglia', with a stylized flourish at the end.

Mr. David Massoglia
Senior Finance Manager

BOARD OF EDUCATION

Interim SUPERINTENDENT

Director of Communications

Interim Chief Academic Officer

Chief of Security

Interim Manager of Human Resources

Interim Deputy Supt. of Business Services

General Counsel

Executive Manager of Instructional Improvement

Interim Director of Career & Technical

Interim Special Education Compliance Administrators

Supervisor of Elementary Special Ed.

Supervisor of Secondary Special Ed.

Director of State & Federal Grants

Athletic Directors

Supervisor of Bilingual Education

Supervisor of School Climate (pending)

Building Administrators

Director of Student Services

Manager of Assessment

Supervisor of Project Synergy

Director of Instructional Services

Instructional Coordinators (vacant)

Assistant Superintendent of Business Services

Senior Finance Manager

***Director of Facilities**

***Custodial/Operations Supervisors**

Financial Analyst

***Director of Food Service**

Executive Director of Technology

Supervisor of Network/AS400 (vacant)

***Manager of Transportation**

LEGEND

- * management companies
- direct report
- indirect report

Approved by the Board of Education on October 20, 2008

X

ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL



This Certificate of Excellence in Financial Reporting is presented to

SCHOOL DISTRICT OF THE CITY OF PONTIAC

For its Comprehensive Annual Financial Report (CAFR)

For the Fiscal Year Ended June 30, 2007

Upon recommendation of the Association's Panel of Review which has judged that the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

Thorne E. Brendel

President

John D. Mueser

Executive Director

Independent Auditor's Report

To the Board of Education
School District of the City of Pontiac

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Pontiac as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Pontiac as of June 30, 2008 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in the management's discussion and analysis section of the report, the School District has incurred expenditures in excess of revenues in the General Fund for the year ended June 30, 2008 primarily due to the reduction in revenue received from the State that results from the loss of students. The School District has designated \$3,383,000 of the General Fund balance to cover the excess of expenditures over revenues budgeted for the fiscal year ending June 30, 2009, leaving \$544,953 of undesignated fund balance. Management represents that the School District anticipates a further loss of students for the fiscal year ending June 30, 2009 and the School District must implement significant cost cutting initiatives that will enable it to bring expenditures in line with expected current revenues to prevent a General Fund deficit in 2009.

The management's discussion and analysis and the General Fund budgetary comparison schedule (identified in the table of contents) are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Education
School District of the City of Pontiac

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Pontiac's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplementary information is presented for the purpose of additional analysis. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical tables, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2008 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moreau, PLLC

October 15, 2008

School District of the City of Pontiac

Management's Discussion and Analysis

This section of the School District of the City of Pontiac's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District of the City of Pontiac financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The basic financial statements contain the following elements:

Management's Discussion and Analysis (MD&A)
(Required Supplementary Information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)
Budgetary Information for Major Funds

Other Supplementary Information

In addition, the School District has added the introductory and statistical sections to compile its Comprehensive Annual Financial Report.

School District of the City of Pontiac

Management's Discussion and Analysis (Continued)

Reporting the School District as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets (deficit) and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements mentioned above report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets (deficit) - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets (deficit) and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

School District of the City of Pontiac

Management's Discussion and Analysis (Continued)

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

School District of the City of Pontiac

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net assets (deficit) provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2008 and 2007:

| TABLE I | Governmental Activities | |
|---|-------------------------|------------------|
| | (in millions) | |
| | 2008 | 2007 |
| Assets | | |
| Current and other assets | \$ 27.5 | \$ 30.9 |
| Capital assets | 40.5 | 40.1 |
| Total assets | 68.0 | 71.0 |
| Liabilities | | |
| Current liabilities | 23.9 | 26.2 |
| Long-term liabilities | 61.7 | 58.0 |
| Total liabilities | 85.6 | 84.2 |
| Net Assets (Deficit) | | |
| Net assets invested in capital assets - Net of related debt | 9.0 | 6.8 |
| Restricted | 1.1 | 2.5 |
| Unrestricted | (27.7) | (22.5) |
| Total net assets (deficit) | <u>\$ (17.6)</u> | <u>\$ (13.2)</u> |

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were (\$17.6) million and (\$13.2) million at June 30, 2008 and 2007, respectively. Capital assets, net of related debt totaling \$9 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, (\$27.7) million, was unrestricted.

School District of the City of Pontiac

Management's Discussion and Analysis (Continued)

The (\$27.7) million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The net assets of the School District represent assets at historical cost less depreciation, which is likely to be much less than the current market value of our assets due to their purchase, in most cases, many years ago. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years June 30, 2008 and 2007.

TABLE 2

| | Governmental Activities | |
|---|-------------------------|------------------|
| | (in millions) | |
| | 2008 | 2007 |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 0.3 | \$ 0.3 |
| Operating grants | 30.1 | 28.7 |
| General revenue: | | |
| Property taxes | 56.5 | 56.2 |
| State foundation allowance | 16.0 | 26.2 |
| Other (including impairment loss) | 3.0 | (3.0) |
| Total revenue | 105.9 | 108.4 |
| Functions/Program Expenses | | |
| Instruction | 57.1 | 54.5 |
| Support services | 44.2 | 43.0 |
| Community services | 0.3 | 0.3 |
| Food services | 3.4 | 3.5 |
| Athletics | 1.2 | 1.2 |
| Interest on long-term debt | 4.1 | 4.1 |
| Total functions/program expenses | 110.3 | 106.6 |
| Increase (Decrease) in Net Assets | (4.4) | 1.8 |
| Net Assets (Deficit) - Beginning of year | (13.2) | (15.0) |
| Net Assets (Deficit) - End of year | <u>\$ (17.6)</u> | <u>\$ (13.2)</u> |

School District of the City of Pontiac

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$110.4 million. Certain activities were partially funded from those who benefited from the programs (\$0.3 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$30.1 million). We paid for the remaining public benefit portion of our governmental activities with \$56.5 million in taxes, \$16.0 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements, totaling \$3.0 million.

The School District experienced a decrease in net assets of \$4.5 million. The key reasons for the change in net assets were depreciation in existing assets exceeding increases in net assets, the recognition of certain liabilities in the government-wide statements that are not recognized in the funds until due, and operating expenditures exceeding operating revenues in the General Fund.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$6.4 million, which is a decrease of \$6.7 million from last year. The primary reason for the decrease was the decrease in fund balance of the 2006 Building and Site Fund due to ongoing projects of the School District and a reduction in the fund balance of the General Fund due to operating expenditures exceeding operating revenues.

In the General Fund, our principal operating fund, the fund balance decreased to \$4.7 million from \$8.9 million. The change is due to a reduction in students leading to a decrease in foundation grant revenues without offsetting reductions in operating expenditures.

The General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds remained mostly stable from the prior year.

School District of the City of Pontiac

Management's Discussion and Analysis (Continued)

The Debt Service Funds showed a combined fund balance decrease from \$2.2 million to \$1.0 million or approximately \$1.2 million. The decrease was related to spending down the fund balances by lowering millage rates to the School District population. Millage rates remained consistent with the previous year. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The combined Capital Projects Funds fund balance decreased from approximately \$2.1 million to \$0.7 million as the School District nears completion of work related to all outstanding bond issues. The remaining fund balance of \$0.7 million represents the combined balance of the Capital Repair and Replacement Fund and Asbestos Fund, School Improvement 1999 Fund, and 2006 Building and Site Fund.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted at year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements.

There were significant revisions made to the 2007-2008 General Fund original budget. Budgeted revenues were increased \$6.1 million due primarily to changes in certain categorical revenue from state and federal sources.

Budgeted expenditures were also increased \$4.4 million primarily due to changes in categorical grants received and expended. The amount of transfers to other funds established was \$2.8 million and represents support provided by the General Fund to other funds and the zeroing out of the negative fund balance of the Special Education Non-center Fund (a subset of the General Fund) by the General Fund.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2008 and 2007, the School District had \$40.5 million and \$40.2 million, respectively, invested in a broad range of capital assets, including land, buildings, and furniture and equipment. The value of net capital assets represents a net increase (including additions, deductions, and depreciation) of approximately \$0.3 million, or about 0.8 percent, from last year.

School District of the City of Pontiac

Management's Discussion and Analysis (Continued)

| | 2008 | 2007 |
|-------------------------------|----------------------|----------------------|
| Land | \$ 3,289,804 | \$ 3,289,804 |
| Construction in progress | - | 16,314,602 |
| Land improvements | 2,368,299 | 2,368,299 |
| Buildings | 74,060,332 | 57,067,113 |
| Equipment | 33,594,186 | 33,310,676 |
| Vehicles | 692,664 | 692,664 |
| Total capital assets | 114,005,285 | 113,043,158 |
| Less accumulated depreciation | 73,518,136 | 72,865,418 |
| Net capital assets | <u>\$ 40,487,149</u> | <u>\$ 40,177,740</u> |

This year's additions of approximately \$0.3 million included heating/air conditioning upgrades, offset by reductions in assets for sale. The 2006 debt was issued for most of these additions.

No major capital projects are planned for the 2008-2009 fiscal year. We present more detailed information about our capital assets in Note 5 to the financial statements.

Debt

At the end of this year, the School District had \$31.5 million in bonds outstanding versus \$34.2 million in the previous year - a decrease of 8.0 percent. Those bonds consisted of general obligation bonds.

| | 2008 | 2007 |
|--------------------------|----------------------|----------------------|
| General obligation bonds | <u>\$ 31,505,842</u> | <u>\$ 34,241,678</u> |

The School District's general obligation bond rating is A by Standard & Poor's and Aaa by Moody's. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues qualified debt, i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding qualified general obligation debt is \$31.5 million. The School District has \$540.1 million available for unqualified debt before reaching the statutorily imposed limit. Other obligations include accrued interest accretion, sick leave, retirement pay, self-insurance, and accrued workers' compensation. We present more detailed information about our long-term liabilities in Note 7 to the financial statements.

School District of the City of Pontiac

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2008-2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2008-2009 budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 61 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008-2009 school year, we anticipate that the fall student count may be below the estimates used in creating the 2008-2009 budget. Once the final student count and related per pupil funding are validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. This conference will provide a clearer picture of the State's ability to fund its appropriations.

The School District has considered a sinking fund millage. Two previous bond millages were defeated.

The contracts with all unions expired as of June 30, 2007. The School District was in negotiations with all unions as of June 30, 2008. The School District hopes to settle all contracts in fiscal year 2009.

The School District is facing a structural imbalance with severe financial challenges in an environment where both decreasing revenues and increasing expenditures transpire concurrently. While it is out of the control of the School District to set the per-pupil foundation grant funding and the student enrollment, every effort is being attempted to influence the per pupil foundation grant funding level through the legislative process and to encourage students to attend schools. Compliance to formula grants assures program operations will not be charged or reverted to foundation grant funding.

School District of the City of Pontiac

Management's Discussion and Analysis (Continued)

On the expenditure control side, many smaller and immediate steps can be and are being taken. Freezing discretionary spending except with the superintendent's approval is one example. Others include, but are not limited to, re-evaluating filling vacant positions, re-organizing assignment of work, monitoring energy usage, and operational efficiencies. Longer-term cost control is simultaneously being planned and executed. Being impacted by the global, national, and state economic forces, the School District is transforming from a large growing urban school district to a mid-sized declining urban school district. Once the targeted model is identified, the structural imbalance can be eliminated over time by re-structuring the School District to match expenditure level with revenue sources while keeping the main mission of education in focus. The transformation will not be easy but is necessary.

Nevertheless, the fiscal year 2008-2009 budget adopted by the Board of Education is a plan which consumes 100 percent of the estimated beginning fund balance by spending \$3,382,558 more than is anticipated to be available from revenue. The budget includes an assumption that the September student enrollment will be at 7,182 full-time equivalent (FTE) count, a decrease of 925 students or 11.4 percent from the prior year. The revenue budget also includes \$2.4 million of a one-time revenue anticipated to result from the sale of surplus properties. The expenditure budget includes \$2,847,442 of expenditure reductions that have yet to be identified, approved, and/or implemented. Despite the actual fund equity on June 30, 2008 being higher than was anticipated in the fiscal year 2008-2009 budget, these three significant assumptions alone within the budget plan represent a significant risk that the School District will be in a deficit condition by June 30, 2009 should it not be substantially realized. A fiscal year 2008-2009 budget amendment will be developed at mid-year to update and adjust revenues and expenditures.

School District of the City of Pontiac

Statement of Net Assets (Deficit) June 30, 2008

| | Governmental Activities |
|--|-------------------------------|
| Assets | |
| Cash and investments (Note 3) | \$ 14,312,786 |
| Receivables: | |
| Taxes | 916,140 |
| Other | 632,313 |
| Due from other governmental units | 10,787,695 |
| Inventories | 195,518 |
| Prepays | 33,396 |
| Restricted cash and investments (Note 8) | 638,039 |
| Capital assets - Net (Note 5) | <u>40,487,149</u> |
| Total assets | 68,003,036 |
| Liabilities | |
| Accounts payable | 2,822,121 |
| Accrued payroll and other liabilities | 8,659,199 |
| Unearned revenue (Note 4) | 864,046 |
| Due to other governments | 1,006,659 |
| State aid anticipation note (Note 11) | 7,000,000 |
| Long-term liabilities (Note 7): | |
| Due within one year | 3,532,384 |
| Due in more than one year | <u>61,754,320</u> |
| Total liabilities | <u>85,638,729</u> |
| Net Assets (Deficit) | |
| Investment in capital assets - Net of related debt | 8,951,631 |
| Restricted for: | |
| Debt Service Funds | 1,031,712 |
| Capital Projects Funds | 46,312 |
| Unrestricted | <u>(27,665,348)</u> |
| Total net assets (deficit) | <u>\$ (17,635,693)</u> |

School District of the City of Pontiac

Statement of Activities Year Ended June 30, 2008

| | Program Revenues | | | Governmental |
|--|-----------------------|----------------------|--------------------------------|---|
| | Expenses | Charges for Services | Operating Grants/Contributions | Activities |
| Functions/Programs | | | | Net (Expense) Revenue and Changes in Net Assets |
| Primary government - Government activities: | | | | |
| Instruction | \$ 57,110,381 | \$ - | \$ 18,223,876 | \$ (38,886,505) |
| Support services | 44,273,611 | - | 8,761,911 | (35,511,700) |
| Food services | 3,420,449 | 211,690 | 3,128,006 | (80,753) |
| Athletics | 1,204,090 | 48,907 | - | (1,155,183) |
| Community services | 283,927 | 23,851 | - | (260,076) |
| Interest on long-term debt | 4,077,227 | - | - | (4,077,227) |
| Total primary government - Governmental activities | <u>\$ 110,369,685</u> | <u>\$ 284,448</u> | <u>\$ 30,113,793</u> | (79,971,444) |
| General revenues: | | | | |
| Taxes: | | | | |
| Property taxes, levied for general purpose | | | | 51,050,036 |
| Property taxes, levied for debt services | | | | 5,486,898 |
| State aid not restricted to specific purposes | | | | 15,973,127 |
| Interest and investment earnings | | | | 1,280,560 |
| Other | | | | 1,923,995 |
| Special item - Impairment loss on capital assets | | | | (222,795) |
| Total general revenues | | | | <u>75,491,821</u> |
| Change in Net Assets | | | | (4,479,623) |
| Net Assets (Deficit) - Beginning of year | | | | <u>(13,156,070)</u> |
| Net Assets (Deficit) - End of year | | | | <u>\$(17,635,693)</u> |

School District of the City of Pontiac

Governmental Funds Balance Sheet June 30, 2008

| | General Fund | Other Nonmajor Governmental Funds | Total |
|--|----------------------|---|----------------------|
| Assets | | | |
| Cash and investments (Note 3) | \$ 12,940,771 | \$ 2,010,054 | \$ 14,950,825 |
| Receivables: | | | |
| Taxes | 616,362 | 299,778 | 916,140 |
| Other | - | 632,313 | 632,313 |
| Due from other governmental units | 10,633,483 | 154,212 | 10,787,695 |
| Due from other funds (Note 6) | 698,624 | 715,715 | 1,414,339 |
| Inventories | 93,009 | 102,509 | 195,518 |
| Prepays | 33,396 | - | 33,396 |
| Total assets | \$ 25,015,645 | \$ 3,914,581 | \$ 28,930,226 |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 2,513,829 | \$ 195,788 | \$ 2,709,617 |
| Accrued payroll and other liabilities | 8,259,744 | 229,769 | 8,489,513 |
| State aid anticipation note (Note 11) | 7,000,000 | - | 7,000,000 |
| Deferred revenue (Note 4) | 1,468,551 | 311,635 | 1,780,186 |
| Due to other funds (Note 6) | 112,504 | 1,414,339 | 1,526,843 |
| Due to other governmental units | 1,006,659 | - | 1,006,659 |
| Total liabilities | 20,361,287 | 2,151,531 | 22,512,818 |
| Fund Balances | | | |
| Reserved: | | | |
| Inventory and prepaid expenditures | 126,405 | 102,509 | 228,914 |
| Capital projects (bonded) | - | 433,851 | 433,851 |
| Debt service | - | 1,031,712 | 1,031,712 |
| Unreserved: | | | |
| Designated: | | | |
| Capital repair/asbestos | - | 297,487 | 297,487 |
| Compensated absences | 600,000 | - | 600,000 |
| To balance the 2008-2009 budget | 3,383,000 | - | 3,383,000 |
| Undesignated: | | | |
| General Fund | 544,953 | - | 544,953 |
| Food Services Fund | - | (102,509) | (102,509) |
| Total fund balances | 4,654,358 | 1,763,050 | 6,417,408 |
| Total liabilities and fund balances | \$ 25,015,645 | \$ 3,914,581 | \$ 28,930,226 |

School District of the City of Pontiac

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) June 30, 2008

| | |
|--|---------------------|
| Fund Balance - Total Government Funds | \$ 6,417,408 |
|--|---------------------|

Amounts reported for governmental activities in the statement of net assets (deficit)
are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

| | |
|--------------------------|---------------------|
| Cost of capital assets | 114,005,285 |
| Accumulated depreciation | <u>(73,518,136)</u> |

| | |
|-------|------------|
| Total | 40,487,149 |
|-------|------------|

| | |
|--|---------|
| Other long-term assets are not available to pay current period expenditures and are therefore deferred in the funds | 916,140 |
|--|---------|

Long-term liabilities are not due and payable in the current period and
are not reported in the funds:

| | |
|--|---------------------|
| Bonds payable including premium and deferred charges | (31,556,569) |
| Capital lease obligations | (196,802) |
| Compensated absences | (2,483,240) |
| Termination benefits and self-insurance | (5,491,451) |
| Accrued interest accretion | <u>(25,558,642)</u> |

| | |
|---|------------------|
| Accrued interest payable is not included as a liability in governmental activities | <u>(169,686)</u> |
|---|------------------|

| | |
|---|-------------------------------|
| Net Assets - Governmental Activities | <u>\$ (17,635,693)</u> |
|---|-------------------------------|

School District of the City of Pontiac

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

| | General Fund | Other Nonmajor Governmental Funds | Totals |
|--|---------------------|--|---------------------|
| Revenue | | | |
| Local sources | \$ 51,761,132 | \$ 8,162,091 | \$ 59,923,223 |
| State sources | 20,686,494 | 444,366 | 21,130,860 |
| Federal sources | 11,828,255 | 2,916,008 | 14,744,263 |
| Interdistrict sources and other | 7,177,326 | 2,899,196 | 10,076,522 |
| Total revenue | 91,453,207 | 14,421,661 | 105,874,868 |
| Expenditures | | | |
| Current: | | | |
| Instruction | 50,889,650 | 3,594,723 | 54,484,373 |
| Support services | 41,687,941 | 1,161,335 | 42,849,276 |
| Community services | 283,927 | - | 283,927 |
| Food services | - | 3,378,769 | 3,378,769 |
| Athletics | - | 1,189,417 | 1,189,417 |
| Debt service: | | | |
| Principal | 186,543 | 2,735,836 | 2,922,379 |
| Interest | 21,084 | 5,142,652 | 5,163,736 |
| Other bond expenditures | - | 147,837 | 147,837 |
| Capital outlay | 656,948 | 1,540,874 | 2,197,822 |
| Total expenditures | 93,726,093 | 18,891,443 | 112,617,536 |
| Excess of Expenditures Over Revenue | (2,272,886) | (4,469,782) | (6,742,668) |
| Other Financing Sources (Uses) | | | |
| Transfers in (Note 6) | - | 1,953,170 | 1,953,170 |
| Transfers out (Note 6) | (1,953,170) | - | (1,953,170) |
| Total other financing sources (uses) | (1,953,170) | 1,953,170 | - |
| Net Change in Fund Balances | (4,226,056) | (2,516,612) | (6,742,668) |
| Fund Balances - Beginning of year | 8,880,414 | 4,279,662 | 13,160,076 |
| Fund Balances - End of year | <u>\$ 4,654,358</u> | <u>\$ 1,763,050</u> | <u>\$ 6,417,408</u> |

School District of the City of Pontiac

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (6,742,668)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures; in the
statement of activities, these costs are allocated over their estimated
useful lives as depreciation:

| | |
|-----------------------------|------------------|
| Depreciation expense | (1,257,051) |
| Capitalized capital outlays | <u>1,789,255</u> |
| Total | 532,204 |

The net effect of other transactions involving capital assets that
increased (decreased) net assets (222,795)

Revenues are recorded in the statement of activities when earned; they
are not reported in the funds until collected or collectible within 60
days of year end 102,714

Interest expense is recorded in the statement of activities when incurred;
it is not reported in governmental funds until paid 9,195

Accrued state aid liability is not included as a liability in governmental funds 135,275

Repayment of bond principal is an expenditure in the governmental funds,
but not in the statement of activities (where it reduces long-term debt) 2,922,379

Underwriter's premium reported as revenue in the governmental funds
and amortized on the statement of activities 6,342

Accreted interest on capital appreciation bonds is recorded in the statement of
activities when incurred; it is not reported in governmental funds until paid 1,218,809

Compensated absences, as well as estimated self-insured liability claims and
termination benefits, are recorded when earned in the statement of
activities. In the current year, more was earned than was paid out (2,441,078)

Change in Net Assets of Governmental Activities \$ (4,479,623)

School District of the City of Pontiac

Fiduciary Fund Statement of Fiduciary Assets and Liabilities Year Ended June 30, 2008

| | Student Activities <u>Agency Fund</u> |
|-----------------------------------|---|
| Assets | |
| Cash and investments | \$ 312,356 |
| Due from other funds | <u>112,504</u> |
| Total assets | <u>\$ 424,860</u> |
| Liabilities | |
| Due to student groups | \$ 312,356 |
| Due to Pontiac Alumni Association | <u>112,504</u> |
| Total liabilities | <u>\$ 424,860</u> |

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note I - Summary of Significant Accounting Policies

The accounting policies of the School District of the City of Pontiac (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Special Items - Transactions within the control of management that are either unusual or infrequent in occurrence are reported as special items in the statement of activities. During the current year, the School District recognized a loss on the impairment of capital assets in the amount of \$222,795. This has been reported as a special item.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental fund:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Regional Center Special Education Programs, Food Service, and Athletic Funds. Any annual operating deficit generated by these activities is generally subsidized by the General Fund.

Debt Service Funds - Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Projects Funds - The Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling. The funds are kept open until the purpose for which the funds were created has been accomplished. The School District's Capital Projects Funds include School Improvements 1999, Capital Repair and Replacement - Asbestos, and 2006 Building and Site Funds.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the School District's funds is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Property taxes are levied on July 1 for taxes due September 14 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for arbitrage and reimbursements to other funds. The amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in governmental activities in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$16,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------------|------------|
| Buildings and additions | 50 years |
| Buses and other vehicles | 8 years |
| Furniture and other equipment | 5-20 years |

Compensated Absences - The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability also includes a provision for other salary-related payments.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets (deficit). Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and certain Special Revenue and Debt Service Funds. All annual appropriations lapse at fiscal year end.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. The budget was prepared in accordance with generally accepted accounting principles, except for capital outlay expenditures being reported with instruction and support services and intergovernmental revenue being budgeted as local revenue. The Capital Projects Fund is budgeted on a project basis. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The School District increased budgeted expenditure amounts during the year due to changes in categorical grants received and expended.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year. There are no material encumbrances outstanding at year end.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variations.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated six banks for the deposit of its funds.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Deposits and Investments (Continued)

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$12,040,913 had \$11,840,913 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not hold investments subject to custodial credit risk of investments at year end.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Deposits and Investments (Continued)

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Type | Name of Investment/Description | Fair Value | Credit Risk Information | |
|-------------------------|-----------------------------------|---------------------|-------------------------|--------------|
| | | | Rating | Organization |
| Pool or fund - 2a7-like | MILAF Fund Plus | \$ 3,230,427 | AAA | S & P |
| Pool or fund - 2a7-like | Dreyfus Cash Management | 535,990 | AAAm | S & P |
| | Total | <u>\$ 3,766,417</u> | | |

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | Unavailable | Unearned |
|---|-------------------|-------------------|
| Delinquent property taxes | \$ 916,140 | \$ - |
| Grant and categorical aid payment received prior to meeting all eligibility requirements | - | 864,046 |
| Total | <u>\$ 916,140</u> | <u>\$ 864,046</u> |

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

| | Balance July 1, 2007 | Additions | Disposals and Impairments | Transfers | Balance June 30, 2008 |
|--------------------------------------|-------------------------|------------|------------------------------|--------------|--------------------------|
| Assets not being depreciated: | | | | | |
| Land | \$ 3,289,804 | \$ - | \$ - | \$ - | \$ 3,289,804 |
| Construction in progress | 16,314,602 | - | - | (16,314,602) | - |
| Subtotal | 19,604,406 | - | - | (16,314,602) | 3,289,804 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 2,368,299 | - | - | - | 2,368,299 |
| Buildings and building improvements | 57,067,113 | 1,312,970 | 634,353 | 16,314,602 | 74,060,332 |
| Furniture and equipment | 33,310,676 | 476,285 | 192,775 | - | 33,594,186 |
| Buses and other vehicles | 692,664 | - | - | - | 692,664 |
| Subtotal | 93,438,752 | 1,789,255 | 827,128 | 16,314,602 | 110,715,481 |
| Accumulated depreciation: | | | | | |
| Land improvements | 1,847,876 | 68,280 | - | - | 1,916,156 |
| Buildings and building improvements | 38,583,011 | 778,967 | 411,558 | - | 38,950,420 |
| Furniture and equipment | 31,741,866 | 409,804 | 192,775 | - | 31,958,895 |
| Buses and other vehicles | 692,665 | - | - | - | 692,665 |
| Subtotal | 72,865,418 | 1,257,051 | 604,333 | - | 73,518,136 |
| Net capital assets being depreciated | 20,573,334 | 532,204 | 222,795 | 16,314,602 | 37,197,345 |
| Net capital assets | \$ 40,177,740 | \$ 532,204 | \$ 222,795 | \$ - | \$ 40,487,149 |

Depreciation expense was allocated to activities as follows:

Governmental activities:

| | |
|-------------------------------|---------------------|
| Instruction | \$ 672,114 |
| Support services | 528,584 |
| Food services | 41,680 |
| Athletics | 14,673 |
| Total governmental activities | <u>\$ 1,257,051</u> |

Impairment loss reported in the governmental activities of \$222,795 was a result of a school building closure.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 6 - Interfund Receivables, Payables, and Transfers

Interfund receivables and payables are used to record periodic transactions that occur between funds; these amounts are repaid when reconciled. The General Fund account is used as the central disbursement account for the School District, which creates interfund balances during the normal course of business. The composition of interfund balances is as follows:

| Fund Due To | Fund Due From | | Total |
|--------------------------------|-------------------|-----------------------------|---------------------|
| | General Fund | Nonmajor Governmental Funds | |
| General Fund | \$ - | \$ 698,624 | \$ 698,624 |
| Nonmajor governmental funds | - | 715,715 | 715,715 |
| Student Activities Agency Fund | 112,504 | - | 112,504 |
| Total | <u>\$ 112,504</u> | <u>\$ 1,414,339</u> | <u>\$ 1,526,843</u> |

Interfund Transfers

The General Fund transfers funds to other governmental funds for operational purposes.

| | Transfers Out - General Fund |
|--|---------------------------------|
| Transfer in - Other governmental funds | <u>\$ 1,953,170</u> |

Note 7 - Long-term Debt

The School District issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include capital leases, compensated absences, claims and judgments, termination benefits, interest accretion on capital appreciation bonds, and certain risk liabilities.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|---------------------|---------------------|----------------------|------------------------|
| Governmental activities: | | | | | |
| Bonds | \$ 34,241,678 | \$ - | \$ 2,735,836 | \$ 31,505,842 | \$ 2,780,409 |
| Plus premium on debt issued | 88,789 | - | 6,342 | 82,447 | 6,342 |
| Less deferred charges on refunding | (34,160) | - | (2,440) | (31,720) | (2,440) |
| Total bonds payable | 34,296,307 | - | 2,739,738 | 31,556,569 | 2,784,311 |
| Capital lease obligation | 383,345 | - | 186,543 | 196,802 | 196,802 |
| Accreted interest on capital appreciation bonds | 26,777,451 | - | 1,218,809 | 25,558,642 | - |
| Employee compensated absences | 3,073,524 | - | 590,284 | 2,483,240 | - |
| Early retirement incentive | 894,000 | 3,780,000 | 894,000 | 3,780,000 | 551,271 |
| Self-insured claims | 1,566,089 | 230,869 | 85,507 | 1,711,451 | - |
| Total governmental activities | <u>\$ 66,990,716</u> | <u>\$ 4,010,869</u> | <u>\$ 5,714,881</u> | <u>\$ 65,286,704</u> | <u>\$ 3,532,384</u> |

Annual debt service requirements to maturity for the above governmental bond obligations are as follows:

| Years Ending June 30 | Principal | Interest | Total |
|-------------------------|----------------------|----------------------|----------------------|
| 2009 | \$ 2,780,409 | \$ 5,405,517 | \$ 8,185,926 |
| 2010 | 2,831,335 | 5,656,953 | 8,488,288 |
| 2011 | 2,890,234 | 5,915,978 | 8,806,212 |
| 2012 | 2,954,491 | 6,174,771 | 9,129,262 |
| 2013 | 3,030,225 | 6,437,487 | 9,467,712 |
| 2014-2018 | 10,474,148 | 15,011,828 | 25,485,976 |
| 2019-2021 | <u>6,545,000</u> | <u>609,385</u> | <u>7,154,385</u> |
| Total | <u>\$ 31,505,842</u> | <u>\$ 45,211,919</u> | <u>\$ 76,717,761</u> |

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 7 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following at June 30, 2008:

| | |
|--|----------------------|
| \$19,779,946 capital appreciation bonds due in annual installments of \$790,933 to \$961,024 through June 15, 2015; interest at 7.1% to 7.3% | \$ 6,117,477 |
| \$15,835,128 capital appreciation bonds due in annual installments of \$600,822 to \$729,385 through June 15, 2015; interest at 7.1% to 7.3% | 4,643,365 |
| \$19,070,000 unlimited tax bonds due in annual installments of \$475,000 through May 1, 2014; interest at 4% to 8% | 2,850,000 |
| \$18,395,000 general obligation limited tax energy conservation bonds due in annual installments ranging from \$615,000 to \$2,400,000 through May 1, 2021 with interest ranging from 4.00% to 5.00% | <u>17,895,000</u> |
| Total bonded debt | <u>\$ 31,505,842</u> |

Capital Lease - The School District has entered into a lease agreement as lessee for financing the purchase of curriculum hardware and software. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations are as follows:

| Years Ending June 30 | Principal | Interest | Total |
|-------------------------|------------|-----------|------------|
| 2009 | \$ 196,802 | \$ 10,824 | \$ 207,626 |

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 7 - Long-term Debt (Continued)

Early Retirement Incentive - The School District offered voluntary severance incentive plans to various groups of employees. Future payment obligations are as follows:

| Years Ending June 30 | Amount |
|-------------------------|---------------------|
| 2009 | \$ 551,271 |
| 2010 | 737,244 |
| 2011 | 737,244 |
| 2012 | 737,244 |
| 2013 | 737,244 |
| 2014-2017 | 279,753 |
| Total | <u>\$ 3,780,000</u> |

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

| | Governmental Activities |
|--|----------------------------|
| Unspent bond proceeds and related interest | <u>\$ 638,039</u> |

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District participates in the Middle Cities risk pool for claims relating to general liability, property and casualty; the School District is uninsured for workers' compensation and is partially uninsured for medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District for the year. The School District has accrued approximately \$65,000 for the year ended June 30, 2008.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 9 - Risk Management (Continued)

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The School District estimates the liability for workers' compensation and health insurance claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded as liabilities in the General Fund to the extent they are considered due at June 30, with the remainder included in long-term debt. Changes in the estimated liability for the past two fiscal years were as follows:

| | 2008 | 2007 |
|---|---------------------|---------------------|
| Estimated liability - Beginning of year | \$ 1,415,797 | \$ 1,460,000 |
| Estimated claims incurred, including changes in estimates | 3,029,628 | 2,363,158 |
| Claim payments | <u>(2,798,759)</u> | <u>(2,407,361)</u> |
| Estimated liability - End of year | <u>\$ 1,646,666</u> | <u>\$ 1,415,797</u> |

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 11.19 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 10.17 percent for the period from October 1, 2007 through June 30, 2008. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's required and actual contributions to the plan for the years ended June 30, 2008, 2007, and 2006 were \$5,145,758, \$5,606,591, and \$5,566,081, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 6.55 percent for the period from October 1, 2007 through June 30, 2008. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2008, 2007, and 2006 were \$3,314,132, \$3,281,785, and \$3,723,987, respectively.

Note 11 - State Aid Anticipation Note

On August 20, 2007, the School District borrowed \$7,000,000 in a state aid anticipation note. The note bears interest at 3.68 percent and is due August 20, 2008. At June 30, 2008, the School District has accrued interest of \$225,135 on this note.

Subsequent to year end, the School District repaid the \$7,000,000 state aid anticipation note outstanding at year end and anticipates additional borrowings early in the 2008-2009 fiscal year. The amount to be borrowed has not been determined.

School District of the City of Pontiac

Notes to Financial Statements June 30, 2008 and 2007

Note 12 - Contingencies

During the normal course of business, the School District is involved in certain legal actions from time to time. These actions are reviewed by the School District to evaluate any potential liabilities that may result and recognizes material obligations, when required, under generally accepted accounting principles.

Required Supplementary Information

School District of the City of Pontiac

Required Supplementary Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|---|---------------------|---------------------|---------------------|------------------------------|
| Revenue | | | | |
| Local and interdistrict sources | \$ 60,673,490 | \$ 59,865,361 | \$ 58,938,458 | \$ (926,903) |
| State sources | 15,861,010 | 20,746,156 | 20,686,494 | (59,662) |
| Federal sources | 17,075,556 | 19,124,128 | 11,828,255 | (7,295,873) |
| Total revenue | 93,610,056 | 99,735,645 | 91,453,207 | (8,282,438) |
| Expenditures - Current | | | | |
| Instruction: | | | | |
| Basic programs | 33,650,528 | 36,578,503 | 35,063,883 | (1,514,620) |
| Added needs | 17,505,190 | 16,413,688 | 15,825,767 | (587,921) |
| Support services: | | | | |
| Pupil | 8,673,462 | 8,331,997 | 8,158,251 | (173,746) |
| Instructional staff | 6,325,935 | 7,332,144 | 4,822,158 | (2,509,986) |
| General administration | 2,077,136 | 2,557,884 | 2,504,401 | (53,483) |
| School administration | 6,719,258 | 6,612,231 | 6,836,622 | 224,391 |
| Business services | 3,525,651 | 5,002,904 | 3,370,757 | (1,632,147) |
| Operations and maintenance | 11,757,363 | 11,251,803 | 9,949,312 | (1,302,491) |
| Transportation | 3,824,664 | 4,281,229 | 3,760,124 | (521,105) |
| Central services | 3,233,305 | 3,375,941 | 3,150,891 | (225,050) |
| Other | 226,394 | - | - | - |
| Community services | 479,981 | 649,700 | 283,927 | (365,773) |
| Total expenditures | 97,998,867 | 102,388,024 | 93,726,093 | (8,661,931) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 1,148,019 | - | - | - |
| Transfers out | - | (2,845,477) | (1,953,170) | 892,307 |
| Total other financing sources (uses) | 1,148,019 | (2,845,477) | (1,953,170) | 892,307 |
| Net Change in Fund Balance | (3,240,792) | (5,497,856) | (4,226,056) | 1,271,800 |
| Fund Balance - July 1, 2007 | 8,880,414 | 8,880,414 | 8,880,414 | - |
| Fund Balance - June 30, 2008 | <u>\$ 5,639,622</u> | <u>\$ 3,382,558</u> | <u>\$ 4,654,358</u> | <u>\$ 1,271,800</u> |

Other Supplementary Information

School District of the City of Pontiac

| | Special Revenue Funds | | | Debt Service | |
|---------------------------------------|---|-------------------|-------------|---|--------------------------|
| | Regional Center Special Education Programs | Food Services | Athletics | School Improvements 1991-C2, Debt Service Fund | 1985 Refunding 1991-D |
| Assets | | | | | |
| Cash and investments | \$ - | \$ - | \$ - | \$ 369,950 | \$ - |
| Receivables - Net: | | | | | |
| Taxes | - | - | - | 134,900 | 134,900 |
| Other | - | - | - | - | - |
| Due from other governmental units | - | 77,542 | - | 50,835 | 19,658 |
| Due from other funds | 229,769 | - | - | 116,775 | 369,171 |
| Inventories | - | 102,509 | - | - | - |
| Total assets | <u>\$ 229,769</u> | <u>\$ 180,051</u> | <u>\$ -</u> | <u>\$ 672,460</u> | <u>\$ 523,729</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - |
| Accrued payroll and other liabilities | 229,769 | - | - | - | - |
| Due to other funds | - | 168,194 | - | - | - |
| Deferred revenue | - | 11,857 | - | 134,900 | 134,900 |
| Total liabilities | 229,769 | 180,051 | - | 134,900 | 134,900 |
| Fund Balances | | | | | |
| Reserved for: | | | | | |
| Inventories | - | 102,509 | - | - | - |
| Capital projects (bonded) | - | - | - | - | - |
| Debt service | - | - | - | 537,560 | 388,829 |
| Unreserved: | | | | | |
| Designated - Asbestos removal | - | - | - | - | - |
| Undesignated - Food services | - | (102,509) | - | - | - |
| Total fund balances | - | - | - | 537,560 | 388,829 |
| Total liabilities and fund balances | <u>\$ 229,769</u> | <u>\$ 180,051</u> | <u>\$ -</u> | <u>\$ 672,460</u> | <u>\$ 523,729</u> |

Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

| Funds | | Capital Projects Funds | | | |
|--------------------------------|---------------------------|--------------------------------|--|--------------------------------|---------------------|
| School Improvements 1999 | Building and Site 2006 | School Improvements 1999 | Capital Repair and Replacement - Asbestos | 2006 Building and Site Fund | Total |
| \$ 259,453 | \$ 16,887 | \$ 90,327 | \$ 725,725 | \$ 547,712 | \$ 2,010,054 |
| 29,978 | - | - | - | - | 299,778 |
| - | 631,240 | - | 1,073 | - | 632,313 |
| 6,177 | - | - | - | - | 154,212 |
| - | - | - | - | - | 715,715 |
| - | - | - | - | - | 102,509 |
| \$ 295,608 | \$ 648,127 | \$ 90,327 | \$ 726,798 | \$ 547,712 | \$ 3,914,581 |
| | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ 195,788 | \$ 195,788 |
| - | - | - | - | - | 229,769 |
| 176,994 | 631,440 | 8,400 | 429,311 | - | 1,414,339 |
| 29,978 | - | - | - | - | 311,635 |
| 206,972 | 631,440 | 8,400 | 429,311 | 195,788 | 2,151,531 |
| - | - | - | - | - | 102,509 |
| - | - | 81,927 | - | 351,924 | 433,851 |
| 88,636 | 16,687 | - | - | - | 1,031,712 |
| - | - | - | 297,487 | - | 297,487 |
| - | - | - | - | - | (102,509) |
| 88,636 | 16,687 | 81,927 | 297,487 | 351,924 | 1,763,050 |
| \$ 295,608 | \$ 648,127 | \$ 90,327 | \$ 726,798 | \$ 547,712 | \$ 3,914,581 |

School District of the City of Pontiac

| | Special Revenue Funds | | | Debt Service | |
|--|---|---------------|-------------|-----------------------------------|--------------------------|
| | Regional Center Special Education Programs | Food Services | Athletics | School Improvements 1991-C2 | 1985 Refunding 1991-D |
| Revenue | | | | | |
| Local sources | \$ 1,624,494 | \$ 211,690 | \$ 48,907 | \$ 3,580,468 | \$ 1,412,800 |
| State sources | 232,368 | 211,998 | - | - | - |
| Federal sources | - | 2,916,008 | - | - | - |
| Interdistrict sources and other | 2,899,196 | - | - | - | - |
| Total revenue | 4,756,058 | 3,339,696 | 48,907 | 3,580,468 | 1,412,800 |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction | 3,594,723 | - | - | - | - |
| Support services | 1,161,335 | - | - | - | - |
| Food services | - | 3,378,769 | - | - | - |
| Athletics | - | - | 1,189,417 | - | - |
| Debt service: | | | | | |
| Principal | - | - | - | 1,000,645 | 760,191 |
| Interest and other | - | - | - | 2,349,355 | 1,784,809 |
| Other bond expenditures | - | - | - | 147,362 | - |
| Capital outlay | - | 60,927 | - | - | - |
| Total expenditures | 4,756,058 | 3,439,696 | 1,189,417 | 3,497,362 | 2,545,000 |
| Excess of Revenue Over (Under) Expenditures | - | (100,000) | (1,140,510) | 83,106 | (1,132,200) |
| Other Financing Sources - Transfers in | - | 100,000 | 1,140,510 | - | - |
| Net Change in Fund Balances | - | - | - | 83,106 | (1,132,200) |
| Fund Balances - Beginning of year | - | - | - | 454,454 | 1,521,029 |
| Fund Balances - End of year | \$ - | \$ - | \$ - | \$ 537,560 | \$ 388,829 |

Other Supplementary Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2008

| Funds | | Capital Projects Funds | | | |
|--------------------------------|---------------------------|--------------------------------|--|---------------------------|---------------------|
| School Improvements 1999 | Building and Site 2006 | School Improvements 1999 | Capital Repair and Replacement - Asbestos | Building and Site 2006 | 2007 Total |
| \$ 561,352 | \$ 631,379 | \$ 14,254 | \$ 42,992 | \$ 33,755 | \$ 8,162,091 |
| - | - | - | - | - | 444,366 |
| - | - | - | - | - | 2,916,008 |
| - | - | - | - | - | 2,899,196 |
| 561,352 | 631,379 | 14,254 | 42,992 | 33,755 | 14,421,661 |
| - | - | - | - | - | 3,594,723 |
| - | - | - | - | - | 1,161,335 |
| - | - | - | - | - | 3,378,769 |
| - | - | - | - | - | 1,189,417 |
| 475,000 | 500,000 | - | - | - | 2,735,836 |
| 164,588 | 843,900 | - | - | - | 5,142,652 |
| 275 | 200 | - | - | - | 147,837 |
| - | - | - | 14,334 | 1,465,613 | 1,540,874 |
| 639,863 | 1,344,100 | - | 14,334 | 1,465,613 | 18,891,443 |
| (78,511) | (712,721) | 14,254 | 28,658 | (1,431,858) | (4,469,782) |
| - | 712,660 | - | - | - | 1,953,170 |
| (78,511) | (61) | 14,254 | 28,658 | (1,431,858) | (2,516,612) |
| 167,147 | 16,748 | 67,673 | 268,829 | 1,783,782 | 4,279,662 |
| \$ 88,636 | \$ 16,687 | \$ 81,927 | \$ 297,487 | \$ 351,924 | \$ 1,763,050 |

School District of the City of Pontiac

Other Supplementary Information Budgetary Comparison Schedule - Special Revenue Fund Regional Center Special Education Programs Year Ended June 30, 2008

| | Final Budget | Actual | Over (Under) Final Budget |
|-------------------------------------|--------------------|--------------------|------------------------------|
| Revenue | | | |
| Local and interdistrict sources | \$ 4,938,329 | \$ 4,523,690 | \$ (414,639) |
| State sources | <u>232,368</u> | <u>232,368</u> | <u>-</u> |
| Total revenue | 5,170,697 | 4,756,058 | (414,639) |
| Expenditures - Current | | | |
| Instruction - Added needs | 3,812,349 | 3,594,723 | (217,626) |
| Support services: | | | |
| Pupil | 745,173 | 820,932 | 75,759 |
| Instructional staff | 288,025 | 200,110 | (87,915) |
| Transportation and maintenance | <u>325,150</u> | <u>140,293</u> | <u>(184,857)</u> |
| Total expenditures | <u>5,170,697</u> | <u>4,756,058</u> | <u>(414,639)</u> |
| Net Change in Fund Balance | - | - | - |
| Fund Balance - July 1, 2007 | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance - June 30, 2008 | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

School District of the City of Pontiac

Other Supplementary Information Budgetary Comparison Schedule - Special Revenue Fund Food Services Year Ended June 30, 2008

| | Final Budget | Actual | Over (Under) Final Budget |
|---|-----------------|-------------|------------------------------|
| Revenue | | | |
| Local and interdistrict sources | \$ 735,892 | \$ 211,690 | \$ (524,202) |
| State sources | 255,623 | 211,998 | (43,625) |
| Federal sources | 2,726,894 | 2,916,008 | 189,114 |
| Total revenue | 3,718,409 | 3,339,696 | (378,713) |
| Expenditures - Food services | 3,718,409 | 3,439,696 | (278,713) |
| Excess of Expenditures Over Revenue | - | (100,000) | (100,000) |
| Other Financing Sources - Transfers in | - | 100,000 | 100,000 |
| Net Change in Fund Balance | - | - | - |
| Fund Balance - July 1, 2007 | - | - | - |
| Fund Balance - June 30, 2008 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

School District of the City of Pontiac

Other Supplementary Information Budgetary Comparison Schedule - Special Revenue Fund Athletics Year Ended June 30, 2008

| | Final Budget | Actual | Over (Under) Final Budget |
|--|------------------|------------------|------------------------------|
| Revenue - Local and interdistrict sources | \$ 56,000 | \$ 48,907 | \$ (7,093) |
| Expenditures - Athletics | <u>1,138,120</u> | <u>1,189,417</u> | <u>51,297</u> |
| Excess of Expenditures Over Revenue | (1,082,120) | (1,140,510) | (58,390) |
| Other Financing Sources - Transfers in | <u>1,082,120</u> | <u>1,140,510</u> | <u>58,390</u> |
| Net Change in Fund Balance | - | - | - |
| Fund Balance - July 1, 2007 | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance - June 30, 2008 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

School District of the City of Pontiac

Other Supplementary Information Budgetary Comparison Schedule Debt Service Funds - Combined Year Ended June 30, 2008

| | Final Budget | Actual | Over (Under) Final Budget |
|---|---------------------|---------------------|------------------------------|
| Revenue - Local | \$ 5,826,346 | \$ 6,185,999 | \$ 359,653 |
| Expenditures - Debt service | | | |
| Principal | 2,235,842 | 2,735,836 | 499,994 |
| Interest and other | 4,318,746 | 5,142,652 | 823,906 |
| Other | - | 147,837 | 147,837 |
| Total expenditures | 6,554,588 | 8,026,325 | 1,471,737 |
| Other Financing Sources - Transfers in | - | 712,660 | 712,660 |
| Net Change in Fund Balance | (728,242) | (1,127,666) | (399,424) |
| Fund Balance - July 1, 2007 | 2,159,378 | 2,159,378 | - |
| Fund Balance - June 30, 2008 | <u>\$ 1,431,136</u> | <u>\$ 1,031,712</u> | <u>\$ (399,424)</u> |

School District of the City of Pontiac

Other Supplementary Information Schedule of Bonded Indebtedness Year Ended June 30, 2008

| Years Ending June 30 | 1991-C2 | 1991-D | 1999 | 2006 | Total |
|-------------------------|----------------------|----------------------|-------------------------|----------------------|----------------------|
| | Principal | Principal | Principal | Principal | |
| 2009 | \$ 961,024 | \$ 729,385 | \$ 475,000 | \$ 615,000 | \$ 2,780,409 |
| 2010 | 930,465 | 705,870 | 475,000 | 720,000 | 2,831,335 |
| 2011 | 900,728 | 684,506 | 475,000 | 830,000 | 2,890,234 |
| 2012 | 871,769 | 662,722 | 475,000 | 945,000 | 2,954,491 |
| 2013 | 845,595 | 639,630 | 475,000 | 1,070,000 | 3,030,225 |
| 2014 | 816,963 | 620,430 | 475,000 | 1,110,000 | 3,022,393 |
| 2015 | 790,933 | 600,822 | - | 1,260,000 | 2,651,755 |
| 2016 | - | - | - | 1,425,000 | 1,425,000 |
| 2017 | - | - | - | 1,595,000 | 1,595,000 |
| 2018 | - | - | - | 1,780,000 | 1,780,000 |
| 2019 | - | - | - | 1,970,000 | 1,970,000 |
| 2020 | - | - | - | 2,175,000 | 2,175,000 |
| 2021 | - | - | - | 2,400,000 | 2,400,000 |
| Total | <u>\$ 6,117,477</u> | <u>\$ 4,643,365</u> | <u>\$ 2,850,000</u> | <u>\$ 17,895,000</u> | <u>\$ 31,505,842</u> |
| Principal payments due | June 15 | June 15 | May 1 | May 1 | |
| Interest payments due | June 15 | June 15 | May 1 and November 1 | May 1 | |
| Interest rate | 7.1% to 7.3% | 7.1% to 7.3% | 4.0% to 8.0% | 4% to 5.0% | |
| Original issue | <u>\$ 19,779,946</u> | <u>\$ 15,835,128</u> | <u>\$ 19,070,000</u> | <u>\$ 18,395,000</u> | |

School District of the City of Pontiac

Other Supplementary Information General Fund - Combining Balance Sheet June 30, 2008

| | General Fund | Categorical Funded Programs | Noncenter Special Education Programs | Total General Fund |
|--|----------------------|-----------------------------------|--|-----------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 9,440,424 | \$ - | \$ - | \$ 9,440,424 |
| Investments | 3,500,347 | - | - | 3,500,347 |
| Receivables: | | | | |
| Taxes | 616,362 | - | - | 616,362 |
| Due from other governmental units | 6,029,923 | 4,482,185 | 121,375 | 10,633,483 |
| Due from other funds | 698,624 | - | - | 698,624 |
| Due (to) from subfunds | 1,687,704 | (2,557,273) | 869,569 | - |
| Inventories | 93,009 | - | - | 93,009 |
| Prepaid expenditures | 33,396 | - | - | 33,396 |
| Total assets | <u>\$ 22,099,789</u> | <u>\$ 1,924,912</u> | <u>\$ 990,944</u> | <u>\$ 25,015,645</u> |
| Liabilities and Fund Balances (Deficit) | | | | |
| Liabilities | | | | |
| Accounts payable and other | \$ 2,469,070 | \$ 44,759 | \$ - | \$ 2,513,829 |
| Accrued payroll and other liabilities | 6,133,984 | 1,256,192 | 869,568 | 8,259,744 |
| State aid anticipation note | 7,000,000 | - | - | 7,000,000 |
| Deferred revenue | 616,363 | 730,812 | 121,376 | 1,468,551 |
| Due to other funds | 112,504 | - | - | 112,504 |
| Due to other governmental units | 1,006,659 | - | - | 1,006,659 |
| Total liabilities | 17,338,580 | 2,031,763 | 990,944 | 20,361,287 |
| Fund Balances (Deficit) | | | | |
| Reserved - Inventory and prepaid expenditures | 126,405 | - | - | 126,405 |
| Unreserved - Designated: | | | | |
| To balance the 2008-2009 budget | 3,383,000 | - | - | 3,383,000 |
| Compensated absences | 600,000 | - | - | 600,000 |
| Undesignated | 651,804 | (106,851) | - | 544,953 |
| Total fund balances (deficit) | <u>4,761,209</u> | <u>(106,851)</u> | <u>-</u> | <u>4,654,358</u> |
| Total liabilities and fund balances (deficit) | <u>\$ 22,099,789</u> | <u>\$ 1,924,912</u> | <u>\$ 990,944</u> | <u>\$ 25,015,645</u> |

School District of the City of Pontiac

Other Supplementary Information General Fund Combining Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2008

| | General Fund | Categorical Funded Programs | Noncenter Special Education Programs | Total General Fund |
|--|---------------------|--------------------------------|--|-----------------------|
| Revenues | | | | |
| Local and interdistrict sources | \$ 50,370,486 | \$ 280,875 | \$ 8,287,097 | \$ 58,938,458 |
| State sources | 13,074,278 | 5,618,863 | 1,993,353 | 20,686,494 |
| Federal sources | 36,786 | 11,791,469 | - | 11,828,255 |
| Total revenues | 63,481,550 | 17,691,207 | 10,280,450 | 91,453,207 |
| Expenditures - Current | | | | |
| Instruction: | | | | |
| Basic programs | 30,686,501 | 4,377,382 | - | 35,063,883 |
| Added needs | 1,027,559 | 7,060,288 | 7,737,920 | 15,825,767 |
| Total instruction | 31,714,060 | 11,437,670 | 7,737,920 | 50,889,650 |
| Support services: | | | | |
| Pupil | 3,184,898 | 2,430,178 | 2,543,175 | 8,158,251 |
| Instructional staff | 1,153,724 | 3,231,900 | 436,534 | 4,822,158 |
| General administration | 2,484,401 | 20,000 | - | 2,504,401 |
| School administration | 6,685,939 | 150,683 | - | 6,836,622 |
| Business | 3,362,143 | 8,614 | - | 3,370,757 |
| Operation and maintenance | 9,836,786 | 112,526 | - | 9,949,312 |
| Transportation | 2,955,534 | 804,590 | - | 3,760,124 |
| Central services | 3,109,824 | 41,067 | - | 3,150,891 |
| Total support services | 32,773,249 | 6,799,558 | 2,979,709 | 42,552,516 |
| Community services | 51,005 | 232,922 | - | 283,927 |
| Excess of Expenditures Over Revenue | (1,056,764) | (778,943) | (437,179) | (2,272,886) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 107,954 | 1,440,597 | 25,742,545 | 27,291,096 |
| Transfers out | (28,509,577) | (734,689) | - | (29,244,266) |
| Total other financing sources (uses) | (28,401,623) | 705,908 | 25,742,545 | (1,953,170) |
| Net Change in Fund Balances | (29,458,387) | (73,035) | 25,305,366 | (4,226,056) |
| Fund Balances (Deficit) - July 1, 2007 | 34,219,596 | (33,816) | (25,305,366) | 8,880,414 |
| Fund Balances (Deficit) - June 30, 2008 | <u>\$ 4,761,209</u> | <u>\$ (106,851)</u> | <u>\$ -</u> | <u>\$ 4,654,358</u> |

**Statistical and Other Information Section
for the School District of the City of Pontiac
(Unaudited)**

School District of the City of Pontiac, Michigan

Net Assets - Governmental Activities Last Six Fiscal Years

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|-------------------------------------|-----------------------------|------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Invested in capital assets - | | | | | | |
| Net of related debt | \$ (16,559,523) | \$ (20,572,453) | \$ (17,617,284) | \$ 10,994,024 | \$ 6,818,339 | \$ 8,962,484 |
| Restricted | 11,513,042 | 5,542,869 | 2,198,734 | 65,485 | 2,509,261 | 1,067,171 |
| Unrestricted | <u>20,771,430</u> | <u>13,890,233</u> | <u>2,918,884</u> | <u>(26,055,964)</u> | <u>(22,483,670)</u> | <u>(27,665,348)</u> |
| Total primary government net assets | <u>\$ 15,724,949</u> | <u>\$ (1,139,351)</u> | <u>\$ (12,499,666)</u> | <u>\$ (14,996,455)</u> | <u>\$ (13,156,070)</u> | <u>\$ (17,635,693)</u> |

Note: This schedule includes all periods subsequent to the adoption of GASB 34.

Source: School District of the City of Pontiac Comprehensive Annual Financial Reports

School District of the City of Pontiac, Michigan

Changes in Governmental Net Assets Last Six Fiscal Years

| | Year Ended June 30 | | | | | |
|--|-----------------------|------------------------|------------------------|-----------------------|---------------------|-----------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Expenses | | | | | | |
| Instruction | \$ 71,428,466 | \$ 69,695,768 | \$ 70,306,454 | \$ 63,527,571 | \$ 54,522,722 | \$ 57,103,869 |
| Support services | 50,518,770 | 58,914,987 | 50,464,138 | 47,505,421 | 43,040,500 | 44,269,270 |
| Food services | 4,987,340 | 4,394,262 | 4,191,721 | 3,414,837 | 3,517,120 | 3,420,449 |
| Athletics | 1,681,532 | 1,721,291 | 1,295,853 | 1,300,846 | 1,207,400 | 1,204,090 |
| Community services | 152,248 | 130,280 | 248,204 | 346,645 | 266,444 | 283,927 |
| Interest on long-term debt | 3,258,839 | 4,178,210 | 3,648,587 | 3,613,362 | 4,075,525 | 4,077,227 |
| Total expenses | 132,027,195 | 139,034,798 | 130,154,957 | 119,708,682 | 106,629,711 | 110,358,832 |
| Program Revenues | | | | | | |
| Charges for services | 859,100 | 737,704 | 551,227 | 395,853 | 361,064 | 284,448 |
| Operating grants and contributions | 29,718,500 | 33,905,841 | 29,882,629 | 29,864,266 | 28,705,004 | 30,113,793 |
| Total program revenues | 30,577,600 | 34,643,545 | 30,433,856 | 30,260,119 | 29,066,068 | 30,398,241 |
| Net Expenses | (101,449,595) | (104,391,253) | (99,721,101) | (89,448,563) | (77,563,643) | (79,960,591) |
| General Revenues | | | | | | |
| Property taxes | 53,892,931 | 46,715,142 | 50,742,424 | 56,072,211 | 56,206,238 | 56,536,934 |
| State aid not restricted to specific purposes | 40,586,900 | 37,958,422 | 36,594,690 | 28,893,413 | 26,183,757 | 15,973,127 |
| Investment earnings | 1,061,236 | 368,033 | 576,204 | 1,233,494 | 2,282,481 | 1,269,707 |
| Other | 730,450 | 2,485,356 | 447,468 | 752,656 | (70,307) | 1,923,995 |
| Special item - Impairment loss on capital assets | - | - | - | - | (5,198,141) | (222,795) |
| Total general revenues | 96,271,517 | 87,526,953 | 88,360,786 | 86,951,774 | 79,404,028 | 75,480,968 |
| Change in Net Assets | \$ (5,178,078) | \$ (16,864,300) | \$ (11,360,315) | \$ (2,496,789) | \$ 1,840,385 | \$ (4,479,623) |

Note: This schedule includes all periods subsequent to the adoption of GASB 34.

Source: School District of the City of Pontiac Comprehensive Annual Financial Reports

School District of the City of Pontiac, Michigan

| | As of | | | | |
|------------------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| General Fund: | | | | | |
| Reserved | \$ 239,562 | \$ 1,003,642 | \$ 619,286 | \$ 521,025 | \$ 436,105 |
| Unreserved | <u>12,727,142</u> | <u>7,746,412</u> | <u>7,866,520</u> | <u>12,357,042</u> | <u>11,415,015</u> |
| Total General Fund | <u>\$12,966,704</u> | <u>\$ 8,750,054</u> | <u>\$ 8,485,806</u> | <u>\$12,878,067</u> | <u>\$11,851,120</u> |
| All other governmental funds: | | | | | |
| Reserved: | | | | | |
| Capital projects (bonded) | \$ 1,031,122 | \$ 8,734,242 | \$ 1,512,901 | \$ - | \$ - |
| Debt service | 10,179,139 | 6,745,284 | 3,551,681 | 7,336,979 | 11,487,060 |
| Other | 52,512 | 59,004 | 52,334 | 151,777 | 196,579 |
| Unreserved, reported in: | | | | | |
| Special Revenue Funds | (52,512) | 155,891 | 162,561 | 63,118 | (170,597) |
| Capital repair/asbestos | 4,613,765 | 4,900,383 | 3,165,554 | 2,522,446 | 2,148,319 |
| Educational improvement | <u>14,997,461</u> | <u>15,829,423</u> | <u>16,435,849</u> | <u>15,598,933</u> | <u>15,356,234</u> |
| Total all other governmental funds | <u>\$30,821,487</u> | <u>\$ 36,424,227</u> | <u>\$24,880,880</u> | <u>\$25,673,253</u> | <u>\$29,017,595</u> |

Source: School District of the City of Pontiac Comprehensive Annual Financial Reports

**Fund Balances - Governmental Funds
Last Ten Fiscal Years**

June 30

| <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| \$ 463,423 | \$ 470,928 | \$ 2,476,829 | \$ 2,490,458 | \$ 126,405 |
| <u>10,482,955</u> | <u>1,004,890</u> | <u>4,642,963</u> | <u>6,389,956</u> | <u>4,527,953</u> |
| <u>\$10,946,378</u> | <u>\$ 1,475,818</u> | <u>\$ 7,119,792</u> | <u>\$ 8,880,414</u> | <u>\$ 4,654,358</u> |
| | | | | |
| \$ - | \$ - | \$ 13,945,319 | \$ 1,851,455 | \$ 433,851 |
| 5,474,825 | 2,133,757 | 2,831,232 | 2,159,378 | 1,031,712 |
| 146,231 | 148,498 | 166,130 | 80,666 | 102,509 |
| (78,187) | (83,521) | (100,645) | (80,666) | (102,509) |
| 268,024 | 239,293 | 261,077 | 268,829 | 297,487 |
| <u>10,544,496</u> | <u>8,588,796</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>\$16,355,389</u> | <u>\$11,026,823</u> | <u>\$17,103,113</u> | <u>\$ 4,279,662</u> | <u>\$ 1,763,050</u> |

School District of the City of Pontiac, Michigan

| | Year Ended | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| Revenue | | | | | |
| Local revenue | \$ 41,833,167 | \$ 39,912,408 | \$ 42,913,990 | \$ 54,956,934 | \$ 58,231,850 |
| State revenue | 63,451,056 | 61,785,175 | 61,406,837 | 48,975,414 | 43,592,717 |
| Federal revenue | 12,241,138 | 12,383,179 | 12,836,549 | 14,035,727 | 17,741,278 |
| Interdistrict revenue | 8,087,870 | 7,741,633 | 4,826,254 | 11,231,397 | 10,284,998 |
| Total revenue | 125,613,231 | 121,822,395 | 121,983,630 | 129,199,472 | 129,850,843 |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction | 67,779,782 | 69,372,765 | 65,487,397 | 66,173,613 | 67,584,445 |
| Support services | 41,270,855 | 41,763,506 | 42,284,568 | 44,051,319 | 46,605,921 |
| Food services | 3,439,143 | 3,776,186 | 3,784,686 | 3,774,761 | 4,758,638 |
| Athletics | 611,218 | 651,737 | 657,357 | 916,230 | 1,560,316 |
| Community services | 546,932 | 171,590 | 236,159 | 240,630 | 152,248 |
| Debt service: | | | | | |
| Principal | 2,448,976 | 8,853,575 | 8,683,484 | 2,666,225 | 2,577,294 |
| Interest | 1,691,024 | 2,523,509 | 2,765,291 | 2,758,999 | 3,012,981 |
| Other | 17,300 | 66,371 | 125,026 | 56,451 | 255,156 |
| Capital outlay | 1,468,806 | 11,233,134 | 9,767,257 | 3,376,610 | 1,026,449 |
| Total expenditures | 119,274,036 | 138,412,373 | 133,791,225 | 124,014,838 | 127,533,448 |
| Excess of Revenue Over (Under) Expenditures | 6,339,195 | (16,589,978) | (11,807,595) | 5,184,634 | 2,317,395 |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 1,207,076 | 19,542,929 | 1,200,890 | 1,557,798 | 4,179,841 |
| Transfers out | (1,207,076) | (1,566,861) | (1,200,890) | (1,557,798) | (4,179,841) |
| Total other financing sources (uses) | - | 17,976,068 | - | - | - |
| Net Change in Fund Balances | 6,339,195 | 1,386,090 | (11,807,595) | 5,184,634 | 2,317,395 |
| Fund Balances - Beginning of year | 37,448,996 | 43,788,191 | 45,174,281 | 33,366,686 | 38,551,320 |
| Fund Balances - End of year | \$ 43,788,191 | \$ 45,174,281 | \$ 33,366,686 | \$ 38,551,320 | \$ 40,868,715 |

Source: School District of the City of Pontiac Comprehensive Annual Financial Reports

Changes in Fund Balances - Governmental Funds Last Ten Fiscal Years

June 30

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|----|--------------|---------------|---------------|---------------|---------------|
| \$ | 48,788,608 | \$ 53,022,795 | \$ 78,850,786 | \$ 60,756,657 | \$ 59,923,223 |
| | 39,198,290 | 32,426,062 | 29,270,745 | 23,720,040 | 21,130,860 |
| | 19,426,858 | 21,294,722 | 18,760,791 | 16,505,233 | 14,744,263 |
| | 13,738,743 | 11,762,058 | 10,479,497 | 10,089,820 | 10,076,522 |
| | 121,152,499 | 118,505,637 | 137,361,819 | 111,071,750 | 105,874,868 |
| | 66,409,940 | 69,770,144 | 61,661,127 | 54,787,234 | 54,484,373 |
| | 54,009,673 | 49,092,292 | 47,151,087 | 42,746,773 | 42,849,276 |
| | 4,188,879 | 4,143,219 | 3,411,636 | 266,444 | 283,927 |
| | 1,643,050 | 1,281,229 | 1,284,141 | 3,466,344 | 3,378,769 |
| | 130,280 | 248,204 | 346,645 | 1,189,969 | 1,189,417 |
| | 2,489,186 | 2,412,961 | 2,352,089 | 2,470,414 | 2,922,379 |
| | 3,275,902 | 3,531,464 | 3,781,199 | 4,790,891 | 5,163,736 |
| | 421,183 | 28,002 | 55,193 | 52,206 | 147,837 |
| | 2,151,355 | 2,797,248 | 5,598,438 | 12,364,304 | 2,197,822 |
| | 134,719,448 | 133,304,763 | 125,641,555 | 122,134,579 | 112,617,536 |
| | (13,566,949) | (14,799,126) | 11,720,264 | (11,062,829) | (6,742,668) |
| | 9,827,344 | 4,204,453 | 12,588,273 | 3,883,735 | 1,953,170 |
| | (9,827,344) | (4,204,453) | (12,588,273) | (3,883,735) | (1,953,170) |
| | - | - | - | - | - |
| | (13,566,949) | (14,799,126) | 11,720,264 | (11,062,829) | (6,742,668) |
| | 40,868,715 | 27,301,766 | 12,502,641 | 24,222,905 | 13,160,076 |
| \$ | 27,301,766 | \$ 12,502,640 | \$ 24,222,905 | \$ 13,160,076 | \$ 6,417,408 |

School District of the City of Pontiac, Michigan

| Taxable Value by Property Type | | | | | | |
|--------------------------------|----------------|----------------|----------------|------------------------|-------------------|------------------|
| Tax Year | Real Property | | | | Personal Property | Total Value |
| | Residential | Commercial | Industrial | Agricultural and Other | | |
| 1998 | \$ 594,441,574 | \$ 366,734,640 | \$ 397,223,760 | \$ - | \$ 622,323,940 | \$ 1,980,723,914 |
| 1999 | 631,861,382 | 471,009,225 | 530,757,605 | - | 768,679,990 | 2,402,308,202 |
| 2000 | 681,740,790 | 547,657,617 | 651,411,196 | 4,689,570 | 788,106,600 | 2,673,605,773 |
| 2001 | 786,611,671 | 607,971,277 | 737,120,263 | 5,293,871 | 851,250,370 | 2,988,247,452 |
| 2002 | 868,940,388 | 644,862,320 | 787,387,938 | 6,933,820 | 849,896,170 | 3,158,020,636 |
| 2003 | 948,417,202 | 799,330,182 | 815,156,401 | 6,364,030 | 816,147,460 | 3,385,415,275 |
| 2004 | 1,052,155,239 | 786,633,356 | 838,557,760 | - | 807,961,058 | 3,485,307,413 |
| 2005 | 1,159,040,015 | 802,359,680 | 912,677,920 | - | 767,137,050 | 3,641,214,665 |
| 2006 | 1,274,045,112 | 811,345,660 | 950,412,005 | - | 828,727,180 | 3,864,529,957 |
| 2007 | 1,341,552,150 | 933,124,250 | 1,016,714,650 | | 730,853,181 | 4,022,244,231 |

Note: Under Michigan law, the revenue base is taxable value.

4,022,244,231

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

Source: Michigan Department of Treasury Form L-4029

**Taxable Value of Taxable Property (Unaudited)
Last Ten Years**

| Tax Rate (Mills) | Estimated Actual Value | Taxable Value as a Percent of Actual |
|---------------------|---------------------------|---|
| 23.6000 | \$ 3,961,447,828 | 50.0 |
| 23.4800 | 4,804,616,404 | 50.0 |
| 23.4800 | 5,347,211,546 | 50.0 |
| 23.4800 | 5,976,494,904 | 50.0 |
| 23.6000 | 6,316,041,272 | 50.0 |
| 18.0000 | 6,770,830,550 | 50.0 |
| 19.4000 | 6,970,614,826 | 50.0 |
| 21.4400 | 7,282,429,330 | 50.0 |
| 20.7000 | 7,729,059,914 | 50.0 |
| 20.7000 | 8,044,488,462 | 50.0 |

School District of the City of Pontiac, Michigan

| Millage Rates - Direct School District Taxes | | | | | | | | | |
|--|------------------------------|-------------------|--------|--------------------|-------------------|-------------------|---------------------------------|---|--------------------|
| Operating | | | | Total Direct Taxes | | | Overlapping | | |
| Tax Year | Fiscal Year Ended June 30 | Non- homestead | Debt* | Homestead | Non- homestead | Oakland County | Oakland Community College | Oakland Intermediate School District | City of Pontiac |
| | | | | | | | | | |
| 1998 | 1999 | 18.0000 | 2.8000 | 2.8000 | 20.8000 | 4.6600 | 1.6500 | 2.2000 | 28.7000 |
| 1999 | 2000 | 17.8800 | 2.8000 | 2.8000 | 20.6800 | 4.6500 | 1.6300 | 2.1000 | 27.0800 |
| 2000 | 2001 | 17.8800 | 2.8000 | 2.8000 | 20.6800 | 5.0000 | 2.0000 | 2.0000 | 26.7800 |
| 2001 | 2002 | 17.8800 | 2.8000 | 2.8000 | 20.6800 | 4.9600 | 1.6000 | 3.4500 | 25.2000 |
| 2002 | 2003 | 18.0000 | 2.8000 | 2.8000 | 20.8000 | 4.6500 | 1.6100 | 3.4200 | 27.5500 |
| 2003 | 2004 | 18.0000 | - | - | 18.0000 | 4.6500 | 1.6000 | 3.4000 | 29.5700 |
| 2004 | 2005 | 18.0000 | 0.7000 | 0.7000 | 18.7000 | 4.6500 | 1.5900 | 3.3800 | 29.8500 |
| 2005 | 2006 | 18.0000 | 1.7200 | 1.7200 | 19.7200 | 4.6500 | 1.5800 | 3.3700 | 20.4000 |
| 2006 | 2007 | 18.0000 | 1.3500 | 1.3500 | 19.3500 | 4.6500 | 1.5844 | 3.3690 | 18.5600 |
| 2007 | 2008 | 18.0000 | 1.3500 | 1.3500 | 19.3500 | 4.6461 | 1.5844 | 3.3690 | 17.5911 |

* Debt and sinking fund millages apply to homestead and non-homestead property

Source: Municipal Advisory Council of Michigan

Direct and Overlapping Property Tax Rates (Unaudited) Last Ten Fiscal Years

Taxes

| State Education | City of Auburn Hills | Bloomfield Township | City of Lake Angeles | Orion Township | City of Sylvan Lake | Waterford Township | West Bloomfield Township | Birmingham |
|--------------------|----------------------------|------------------------|-------------------------|-------------------|------------------------|-----------------------|--------------------------------|------------|
| 6.0000 | 12.0700 | 8.0300 | 11.0300 | 6.1500 | 12.3900 | 9.6400 | 8.1100 | - |
| 6.0000 | 11.7600 | 8.5600 | 10.7000 | 6.0900 | 11.3200 | 9.6400 | 8.0700 | - |
| 6.0000 | 11.5500 | 8.7700 | 10.5000 | 6.0400 | 12.1000 | 9.6400 | 8.0100 | - |
| 6.0000 | 11.0500 | 8.7000 | 9.9600 | 5.6200 | 11.2000 | 9.6400 | 7.2000 | - |
| 6.0000 | 10.9900 | 9.4100 | 9.9600 | 5.5900 | 12.1500 | 10.2700 | 8.9100 | - |
| 5.0000 | 11.5800 | 12.3100 | 9.9600 | 5.5500 | 14.2200 | 10.2700 | 8.8700 | 16.1700 |
| 6.0000 | 11.3900 | 12.8800 | 9.9600 | 5.6100 | 14.2600 | 10.3100 | 8.9000 | 16.0200 |
| 6.0000 | 11.3900 | 13.0900 | 9.9600 | 5.4500 | 14.9800 | 10.2900 | 9.3900 | 15.6700 |
| 6.0000 | 11.1502 | 12.6533 | 9.9600 | 5.4500 | 14.7184 | 10.2900 | 8.9000 | 15.5546 |
| 6.0000 | 11.1502 | 13.1146 | 9.9571 | 5.4519 | 14.7415 | 10.2900 | 8.9000 | - |

School District of the City of Pontiac, Michigan

Principal Property Taxpayers (Unaudited) Current Year and Nine Years Prior

| | 2007 Taxable Value | Percentage of Total | 1998 Taxable Value | Percentage of Total |
|----------------------------------|-----------------------|------------------------|-----------------------|------------------------|
| General Motors Corporation | \$ 782,748,642 | 29.9 | \$ 430,640,370 | 28.9 |
| DaimlerChrysler Corporation | 513,883,120 | 19.6 | 152,554,175 | 10.2 |
| Detroit Edison Company | 475,009,890 | 18.1 | 316,764,970 | 21.3 |
| Consumers Energy | 185,904,660 | 7.1 | 144,329,050 | 9.7 |
| Stuart Frankel/Somerset | 145,616,300 | 5.6 | 72,807,880 | 4.9 |
| Taubman/ Twelve Oaks/Great Lakes | 141,803,730 | 5.4 | 94,506,050 | 6.3 |
| Bre Southfield | 111,199,580 | 4.2 | 86,563,900 | 5.8 |
| Ford Motor Company | 94,724,520 | 3.6 | 110,143,860 | 7.4 |
| AT&T | 89,746,670 | 3.4 | * | N/A |
| Ramco-Gershenson | 78,535,910 | 3.0 | 81,020,760 | 5.4 |

* Data not available

Source: Oakland County CAFR 2007

Note: Data from the previous year and prior nine years

School District of the City of Pontiac, Michigan

Property Tax Levies and Collections (Unaudited) Last Ten Fiscal Years

| Tax Year | Fiscal Year Ended June 30 | Total Levy | Current Collections | Percent Collected | Delinquent Collections | Total Tax Collections | Percent of Levy Collected |
|----------|---------------------------------|---------------|------------------------|----------------------|---------------------------|--------------------------|---------------------------------|
| 1998 | 1999 | \$ 30,241,896 | \$ 30,124,366 | 99.61 | \$ 117,530 | \$ 30,241,896 | 100.00 |
| 1999 | 2000 | 36,494,785 | 36,202,619 | 99.20 | 292,166 | 36,494,785 | 100.00 |
| 2000 | 2001 | 41,091,132 | 40,275,741 | 98.02 | 779,606 | 41,055,347 | 99.91 |
| 2001 | 2002 | 51,959,789 | 51,311,466 | 98.75 | 331,916 | 51,643,382 | 99.39 |
| 2002 | 2003 | 54,015,739 | 53,703,429 | 99.42 | 312,310 | 54,015,739 | 100.00 |
| 2003 | 2004 | 49,401,083 | 48,552,004 | 98.28 | 523,489 | 49,075,493 | 99.34 |
| 2004 | 2005 | 54,952,073 | 54,217,892 | 98.66 | 619,320 | 54,837,212 | 99.79 |
| 2005 | 2006 | 55,893,434 | 54,903,836 | 98.23 | 785,390 | 55,689,226 | 99.63 |
| 2006 | 2007 | 56,680,603 | 53,589,941 | 94.55 | 2,762,566 | 56,352,507 | 99.42 |
| 2007 | 2008 | 56,420,196 | 54,804,782 | 97.14 | 1,206,627 | 56,011,409 | 99.28 |

Source: School District of the City of Pontiac Comprehensive Annual Financial Reports.

School District of the City of Pontiac, Michigan

| | As of June 30 | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 1999 | 2000 | 2001 | 2002 |
| Governmental Activities | | | | |
| General obligation bonds | \$ 29,105,087 | \$ 39,321,513 | \$ 30,638,029 | \$ 27,971,804 |
| Less pledged Debt Service Funds | - | - | - | - |
| Net general bonded debt | 29,105,087 | 39,321,513 | 30,638,029 | 27,971,804 |
| Installment purchase agreements | - | - | - | - |
| Capital leases | - | - | - | - |
| Total debt of the School District | \$ 29,105,087 | \$ 39,321,513 | \$ 30,638,029 | \$ 27,971,804 |
| Total taxable value | \$ 1,980,723,914 | \$ 2,402,308,202 | \$ 2,673,605,773 | \$ 2,988,247,452 |
| Ratio of total debt to personal income | 1% | 2% | 1% | 1% |
| Taxable value | \$ 1,980,723,914 | \$ 2,402,308,202 | \$ 2,673,605,773 | \$ 2,988,247,452 |
| Net general bonded obligation debt as a percentage of taxable value | 1% | 2% | 1% | 1% |
| Total population | 71,167 | 66,337 | 66,337 | 66,337 |
| Total debt per capita | \$ 409 | \$ 593 | \$ 462 | \$ 422 |

Note: If personal income is unavailable, it is acceptable to use taxable value.

Population and taxable value data obtained from Southeast Michigan Council of Governments

**Ratios of General Bonded Debt Outstanding (Unaudited)
Last Ten Fiscal Years**

| As of June 30 | | | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| \$ 25,394,510 | \$ 22,905,314 | \$ 20,492,363 | \$ 36,535,274 | \$ 34,241,678 | \$ 31,505,842 |
| - | - | - | - | - | - |
| 25,394,510 | 22,905,314 | 20,492,363 | 36,535,274 | 34,241,678 | 31,505,842 |
| - | - | - | - | - | - |
| - | - | - | 560,163 | 383,345 | 196,802 |
| \$ 25,394,510 | \$ 22,905,314 | \$ 20,492,363 | \$ 37,095,437 | \$ 34,625,023 | \$ 31,702,644 |
| \$ 3,158,020,636 | \$ 3,385,415,275 | \$ 3,485,307,413 | \$ 3,641,214,665 | \$ 3,864,529,957 | \$ 4,022,244,231 |
| 1% | 1% | 1% | 1% | 1% | 1% |
| \$ 3,158,020,636 | \$ 3,385,415,275 | \$ 3,485,307,413 | \$ 3,641,214,665 | \$ 3,864,529,957 | \$ 4,022,244,231 |
| 1% | 1% | 1% | 1% | 1% | 1% |
| 66,337 | 66,337 | 66,337 | 66,337 | 66,337 | 66,337 |
| \$ 383 | \$ 345 | \$ 309 | \$ 559 | \$ 522 | \$ 478 |

School District of the City of Pontiac, Michigan

| Fiscal Year | General Obligation Bonds | Less Pledged Debt Service Funds | Net General Bonded Debt | Other General Obligation Debt | Total General Obligation Debt |
|-------------|--------------------------------|---------------------------------------|----------------------------|----------------------------------|----------------------------------|
| 1999 | \$ 29,105,087 | \$ - | \$ 29,105,087 | \$ - | \$ 29,105,087 |
| 2000 | 39,321,513 | - | 39,321,513 | - | 39,321,513 |
| 2001 | 30,638,029 | - | 30,638,029 | - | 30,638,029 |
| 2002 | 27,971,804 | - | 27,971,804 | - | 27,971,804 |
| 2003 | 25,394,510 | - | 25,394,510 | - | 25,394,510 |
| 2004 | 22,905,314 | - | 22,905,314 | - | 22,905,314 |
| 2005 | 20,492,363 | - | 20,492,363 | - | 20,492,363 |
| 2006 | 36,535,274 | - | 36,535,274 | 560,163 | 37,095,437 |
| 2007 | 34,241,678 | - | 34,241,678 | 383,345 | 34,625,023 |
| 2008 | 31,505,842 | - | 31,505,842 | 196,802 | 31,702,644 |

Population information obtained from Southeast Michigan Council of Governments

**Ratios of Outstanding Debt (Unaudited)
Last Ten Fiscal Years**

| Taxable Value | Net General Bonded Debt as a Percentage of Taxable Value | Total Debt as a Percentage of Taxable Value | Population | Net General Bonded Debt per Capita | Total Debt per Capita |
|------------------|---|--|------------|---|-----------------------------|
| \$ 1,980,723,914 | 1 | 1 | 71,167 | \$ 409 | \$ 409 |
| 2,402,308,202 | 2 | 2 | 71,167 | 553 | 553 |
| 2,673,605,773 | 1 | 1 | 66,337 | 462 | 462 |
| 2,988,247,452 | 1 | 1 | 66,337 | 422 | 422 |
| 3,158,020,636 | 1 | 1 | 66,337 | 383 | 383 |
| 3,385,415,275 | 1 | 1 | 66,337 | 345 | 345 |
| 3,485,307,413 | 1 | 1 | 66,337 | 309 | 309 |
| 3,641,214,665 | 1 | 1 | 66,337 | 551 | 559 |
| 3,864,529,957 | 1 | 1 | 66,337 | 516 | 522 |
| 4,022,244,231 | 1 | 1 | 66,337 | 475 | 478 |

School District of the City of Pontiac, Michigan

Direct and Overlapping Governmental Activities Debt (Unaudited) Year Ended June 30, 2008

| Direct Debt | Gross Debt | School District Portion of Outstanding Debt Principal | | Percent of Taxable Value \$4,016,198,267 |
|--|------------------------------|---|-----------------------------|--|
| | | Percent | Amount | (B) |
| General obligation debt | \$ 31,702,644 | 100.00 | \$ 31,702,644 | 0.79 |
| Overlapping debt (A): | | | | |
| City of Pontiac | 23,585,000 | 100.00 | 23,585,000 | 0.59 |
| City of Sylvan Lake | 6,165,000 | 83.54 | 5,150,241 | 0.13 |
| City of Auburn Hills | 16,845,000 | 82.49 | 13,895,441 | 0.35 |
| Bloomfield Township | 69,058,861 | 8.35 | 5,766,415 | 0.14 |
| Waterford Township | 16,550,000 | 2.36 | 390,580 | 0.01 |
| West Bloomfield Township | 15,966,755 | 1.64 | 261,855 | 0.01 |
| Oakland County at large | 109,962,280 | 6.20 | 6,817,661 | 0.17 |
| Oakland Community College | 7,965,000 | 6.24 | 497,016 | 0.01 |
| Oakland Intermediate School District | <u>53,730,000</u> | 6.22 | <u>3,342,006</u> | <u>0.08</u> |
| Total overlapping debt | <u>319,827,896</u> | | <u>59,706,215</u> | <u>1.49</u> |
| Total direct and and overlapping debt | <u>\$ 351,530,540</u> | | <u>\$ 91,408,859</u> | <u>2.28</u> |

(A) Overlapping debt amounts provided by the Municipal Advisory Council of Michigan.

(B) Taxable valuations as of December 31, 2007. This valuation is for the 2008 tax year, which is the 2007-2008 fiscal year tax base for the School District of the City of Pontiac.

School District of the City of Pontiac, Michigan

| | Year Ended | | | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | 1999 | 2000 | 2001 | 2002 |
| Calculation of debt limit: | | | | |
| State equalized valuation (SEV) | \$ 1,980,723,914 | \$ 2,402,308,202 | \$ 2,673,605,773 | \$ 2,988,247,452 |
| 15 percent of SEV | 297,108,587 | 360,346,230 | 401,040,866 | 448,237,118 |
| Total debt | <u>29,105,087</u> | <u>39,321,513</u> | <u>30,638,029</u> | <u>27,971,804</u> |
| Legal debt margin | <u>\$ 268,003,500</u> | <u>\$ 321,024,717</u> | <u>\$ 370,402,837</u> | <u>\$ 420,265,314</u> |
| Net debt subject to limit as a percent of debt limit | 9.80% | 10.91% | 7.64% | 6.24% |

Legal Debt Margin (Unaudited)
Last Ten Fiscal Years

June 30

| 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$ 3,158,020,636 | \$ 3,385,415,275 | \$ 3,485,307,413 | \$ 3,641,214,665 | \$ 3,864,529,957 | \$ 4,022,244,231 |
| 473,703,095 | 507,812,291 | 522,796,112 | 546,182,200 | 579,679,494 | 603,336,635 |
| 25,394,510 | 22,905,314 | 20,492,363 | 37,095,437 | 34,625,023 | 31,702,644 |
| <u>\$ 448,308,585</u> | <u>\$ 484,906,977</u> | <u>\$ 502,303,749</u> | <u>\$ 509,086,763</u> | <u>\$ 545,054,471</u> | <u>\$ 571,633,991</u> |
| 5.36% | 4.51% | 3.92% | 6.79% | 5.97% | 5.25% |

School District of the City of Pontiac, Michigan

Demographic and Economic Statistics Last Ten Fiscal Years

| Fiscal Year | Population | Total Personal Income (in Thousands) | Per Capita Personal Income | Unemployment Rate (Percent) |
|-------------|------------|---|-------------------------------|--------------------------------|
| 1999 | 71,167 | \$ 700,781 | \$ 9,847 | 8.0 |
| 2000 | 66,337 | 653,220 | 9,847 | 6.6 |
| 2001 | 66,337 | 653,220 | 9,847 | 10.7 |
| 2002 | 66,337 | 653,220 | 9,847 | 14.6 |
| 2003 | 66,337 | 653,220 | 9,847 | 14.6 |
| 2004 | 66,337 | 653,220 | 9,847 | 13.8 |
| 2005 | 66,337 | 653,220 | 9,847 | 16.2 |
| 2006 | 66,337 | 653,220 | 9,847 | 14.8 |
| 2007 | 66,337 | 653,220 | 9,847 | 15.2 |
| 2008 | 66,337 | 653,220 | 9,847 | 15.8 |

Source: School District of the City of Pontiac and U.S. Census

School District of the City of Pontiac, Michigan

Principal Employers Prior Year and Nine Years Prior Years Ended June 30

| Employer | 2007 Employees | Percentage of Total Employment | 1998 Employees | Percentage of Total Employment |
|--------------------------------------|----------------------|--------------------------------------|----------------------|--------------------------------------|
| 1 General Motors Corporation | 15,555 | 2.6 | 26,700 | 4.1 |
| 2 William Beaumont Hospital | 12,588 | 2.1 | 14,000 | 2.2 |
| 3 Chrysler Group | 10,113 | 1.7 | 20,600 | 3.2 |
| 4 Oakland County | 4,573 | 0.8 | 3,500 | 0.5 |
| 5 Electronic Data Systems | 4,396 | 0.7 | 9,480 | 0.5 |
| 6 St. John Health Services | 4,139 | 0.7 | N/A | N/A |
| 7 Blue Cross/Blue Shield of Michigan | 4,051 | 0.7 | N/A | N/A |
| 8 U.S. Postal Service | 3,970 | 0.7 | N/A | N/A |
| 9 Trinity Health | 3,707 | 0.6 | 2,870 | 0.4 |
| 10 Zieger Health Care Corp | <u>2,442</u> | 0.4 | N/A | N/A |
| Total principal employers | <u>65,534</u> | | <u>77,150</u> | |
| Total employment | <u>N/A</u> | | <u>N/A</u> | |

Source: Oakland County CAFR 2007

School District of the City of Pontiac, Michigan

Full-time Equivalent School District Employees (Unaudited) Last Ten Fiscal Years

| Function/Program | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|
| General government: | | | | | | | | | | |
| Instruction | 780 | 755 | 725 | 720 | 691 | 689 | 651 | 589 | 553 | 534 |
| Support services - Instruction | 125 | 122 | 121 | 122 | 120 | 115 | 85 | 75 | 82 | 102 |
| Support services - Other | 100 | 99 | 89 | 87 | 86 | 83 | 76 | 98 | 90 | 108 |
| Operations and maintenance | 103 | 103 | 97 | 97 | 95 | 92 | 85 | 68 | 78 | 77 |
| Executive/School administration | 75 | 73 | 67 | 67 | 67 | 63 | 60 | 53 | 46 | 41 |
| Athletics | 4 | 4 | 4 | 4 | 4 | 4 | 2 | 2 | 2 | 2 |
| Food service | 89 | 89 | 83 | 81 | 81 | 79 | 73 | 73 | 73 | 59 |
| Total | <u>1,276</u> | <u>1,245</u> | <u>1,186</u> | <u>1,178</u> | <u>1,144</u> | <u>1,125</u> | <u>1,032</u> | <u>958</u> | <u>924</u> | <u>923</u> |

Source: Pontiac Schools Human Resources Department

School District of the City of Pontiac, Michigan

Operating Indicators (Unaudited) Last Ten Fiscal Years

| Year | State Aid Enrollment | Operating Expenditures* | Cost per Pupil | Operating Revenues* | Revenue per Pupil | Total Teaching Staff | Percentage of Students Qualifying for Free/Reduced Meals | Average Teacher Salary |
|--------|-------------------------|----------------------------|----------------|------------------------|----------------------|----------------------------|--|------------------------------|
| 1999 | 12,716 | \$ 119,034,283 | 9,360.98 | \$ 119,511,065 | \$ 9,398 | 780 | 73.00 | \$ 45,000 |
| 2000 | 12,511 | 138,195,145 | 11,045.89 | 120,773,205 | 9,653.36 | 755 | 74.00 | 46,000 |
| 2001 | 12,346 | 133,478,138 | 10,811.45 | 121,064,117 | 9,805.94 | 725 | 73.00 | 48,000 |
| 2002 | 11,474 | 124,014,838 | 10,808.34 | 129,199,472 | 11,260.19 | 720 | 74.00 | 50,000 |
| 2003 | 11,324 | 127,533,448 | 11,262.23 | 129,850,843 | 11,466.87 | 691 | 75.00 | 52,000 |
| 2004 | 10,850 | 134,719,448 | 12,416.54 | 121,152,499 | 11,166.13 | 689 | 74.00 | 54,000 |
| 2005 | 10,474 | 133,304,763 | 12,727.21 | 118,505,637 | 11,314.27 | 651 | 73.00 | 55,000 |
| 2006* | 9,876 | 107,616,555 | 10,896.78 | 119,336,819 | 12,083.52 | 589 | 77.00 | 57,000 |
| 2007** | 9,150 | 122,134,579 | 13,348.04 | 111,071,750 | 12,138.99 | 553 | 76.00 | 58,000 |
| 2008 | 8,245 | 112,617,536 | 13,658.89 | 105,864,015 | 12,839.78 | 923 | 76.00 | 58,000 |

Source: Pontiac audited financial statements

* Operating expenditures and revenues for 2006 are shown net of related debt refunding activities.

** Operating expenditures for 2007 were shown net of capital expenditures.

School District of the City of Pontiac, Michigan

| Function/Program | 1999 | 2000 | 2001 | 2002 | 2003 |
|--------------------------|---------|---------|---------|---------|---------|
| Instructional buildings: | | | | | |
| Elementary: | | | | | |
| Number of buildings | 16 | 16 | 16 | 16 | 16 |
| Square footage | 848,038 | 848,038 | 848,038 | 848,038 | 848,038 |
| Capacity | 13,150 | 13,150 | 13,150 | 13,150 | 13,150 |
| Enrollment* | 7,214 | 6,617 | 6,303 | 5,621 | 5,101 |
| Middle: | | | | | |
| Number of buildings | 4 | 4 | 4 | 4 | 4 |
| Square footage | 478,417 | 478,417 | 478,417 | 478,417 | 478,417 |
| Capacity | 6,431 | 6,431 | 6,431 | 6,431 | 6,431 |
| Enrollment* | 3,046 | 2,784 | 2,906 | 2,927 | 2,906 |
| High: | | | | | |
| Number of buildings | 3 | 3 | 3 | 3 | 3 |
| Square footage | 777,910 | 748,193 | 748,193 | 748,193 | 748,193 |
| Capacity | 5,721 | 5,721 | 5,721 | 5,721 | 5,721 |
| Enrollment* | 2,411 | 2,899 | 2,942 | 2,920 | 3,013 |
| Other: | | | | | |
| Number of buildings | 2 | 2 | 2 | 2 | 2 |
| Square footage | 96,850 | 96,850 | 96,850 | 96,850 | 96,850 |
| Capacity | 1,720 | 1,720 | 1,720 | 1,720 | 1,720 |
| Enrollment* | 207 | 211 | 195 | 279 | 304 |
| Administrative: | | | | | |
| Number of buildings | 3 | 3 | 3 | 3 | 3 |
| Square footage | 107,403 | 107,403 | 107,403 | 107,403 | 107,403 |
| Transportation: | | | | | |
| Number of garages | - | - | - | - | - |
| Buses | - | - | - | - | - |
| Athletics: | | | | | |
| Football fields | 2 | 2 | 2 | 2 | 2 |
| Soccer fields | 6 | 6 | 6 | 6 | 6 |
| Running tracks | 2 | 2 | 2 | 2 | 2 |
| Baseball/Softball | 4 | 4 | 4 | 4 | 4 |
| Swimming pools | 2 | 2 | 2 | 2 | 2 |
| Playgrounds | 20 | 20 | 20 | 20 | 20 |

* Enrollment reflects all students enrolled including consortium students and tuition students. Student count is head count, not full-time equivalent membership count.

Source: School District of the City of Pontiac

Capital Asset Information (Unaudited)
Last Ten Fiscal Years

| 2004 | 2005 | 2006 | 2007 | 2008 |
|---------|---------|---------|---------|---------|
| 16 | 16 | 16 | 16 | 16 |
| 848,038 | 848,038 | 848,038 | 848,038 | 848,038 |
| 13,150 | 13,150 | 13,150 | 13,150 | 13,150 |
| 4,714 | 4,797 | 4,559 | 4,233 | 3,843 |
| 4 | 4 | 4 | 4 | 4 |
| 478,417 | 478,417 | 478,417 | 478,417 | 478,417 |
| 6,431 | 6,431 | 6,431 | 6,431 | 6,431 |
| 2,718 | 2,403 | 2,210 | 2,033 | 1,793 |
| 3 | 3 | 3 | 3 | 3 |
| 748,193 | 748,193 | 748,193 | 748,193 | 748,193 |
| 5,721 | 5,721 | 5,721 | 5,721 | 5,721 |
| 3,233 | 3,090 | 2,930 | 2,725 | 2,452 |
| 2 | 2 | 2 | 2 | 2 |
| 96,850 | 96,850 | 96,850 | 96,850 | 96,850 |
| 1,720 | 1,720 | 1,720 | 1,720 | 1,720 |
| 185 | 184 | 177 | 159 | 157 |
| 3 | 3 | 3 | 3 | 3 |
| 107,403 | 107,403 | 107,403 | 107,403 | 107,403 |
| - | - | - | - | - |
| - | - | - | - | - |
| 2 | 2 | 2 | 2 | 2 |
| 6 | 6 | 6 | 6 | 6 |
| 2 | 2 | 2 | 2 | 2 |
| 4 | 4 | 4 | 4 | 4 |
| 2 | 2 | 2 | 2 | 2 |
| 20 | 20 | 20 | 20 | 20 |